

EVALUATION OF THE SMALL AND
MEDIUM ENTERPRISE (SMED) PROJECT

UNDER

CONTRACT NO. ANE-C-00-6049-00

SUBMITTED TO USAID/PHILIPPINES

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PROJECT DATA SHEET

1. TRANSACTION CODE

☐ A = Add
☐ C = Change
☐ D = Delete

Amendment Number

DOCUMENT
CODE

3

COUNTRY/ENTITY
Philippines

2. PROJECT NUMBER

492-0359

3. BUREAU/OFFICE

ASIA

5. PROJECT TITLE (maximum 60 characters)

Small and Medium Enterprise Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
1 2 3 0 8 97. ESTIMATED DATE OF OBLIGATION
(Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 83

B. Quarter 8

C. Final FY 83

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 83			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	1,500	13,500	15,000	1,500	13,500	15,000
(Grant)	(1,500)	()	(1,500)	(1,500)	()	(1,500)
(Loan)	()	(13,500)	(13,500)	()	(13,500)	(13,500)
Other 1.						
U.S. 2.						
Host Country						
Other Donor(s)		5,000	5,000		5,000	5,000
TOTALS	1,500	18,500	20,000	1,500	18,500	20,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
11 103	260	250	840	0	0	1,500	13,500	1,500	13,500
(2)									
(3)									
(4)									
TOTALS		0	0	1,500	13,500	1,500	13,500		

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

264 840 830 040

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BL BR BU
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To institutionalize an effective process, predominantly within the private sector, to accelerate the growth of labor intensive small/medium enterprises outside of Metro Manila.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 1 0 8 6 1 0 0 0 8 8 9

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☒ 94 ☒ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a page PP Amendment)

17. APPROVED BY

Signature

Anthony M. Schwarzwald

Title Anthony M. Schwarzwald
Director, USAID/Philippines

Date Signed

MM DD YY
0 8 2 5 8 3

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

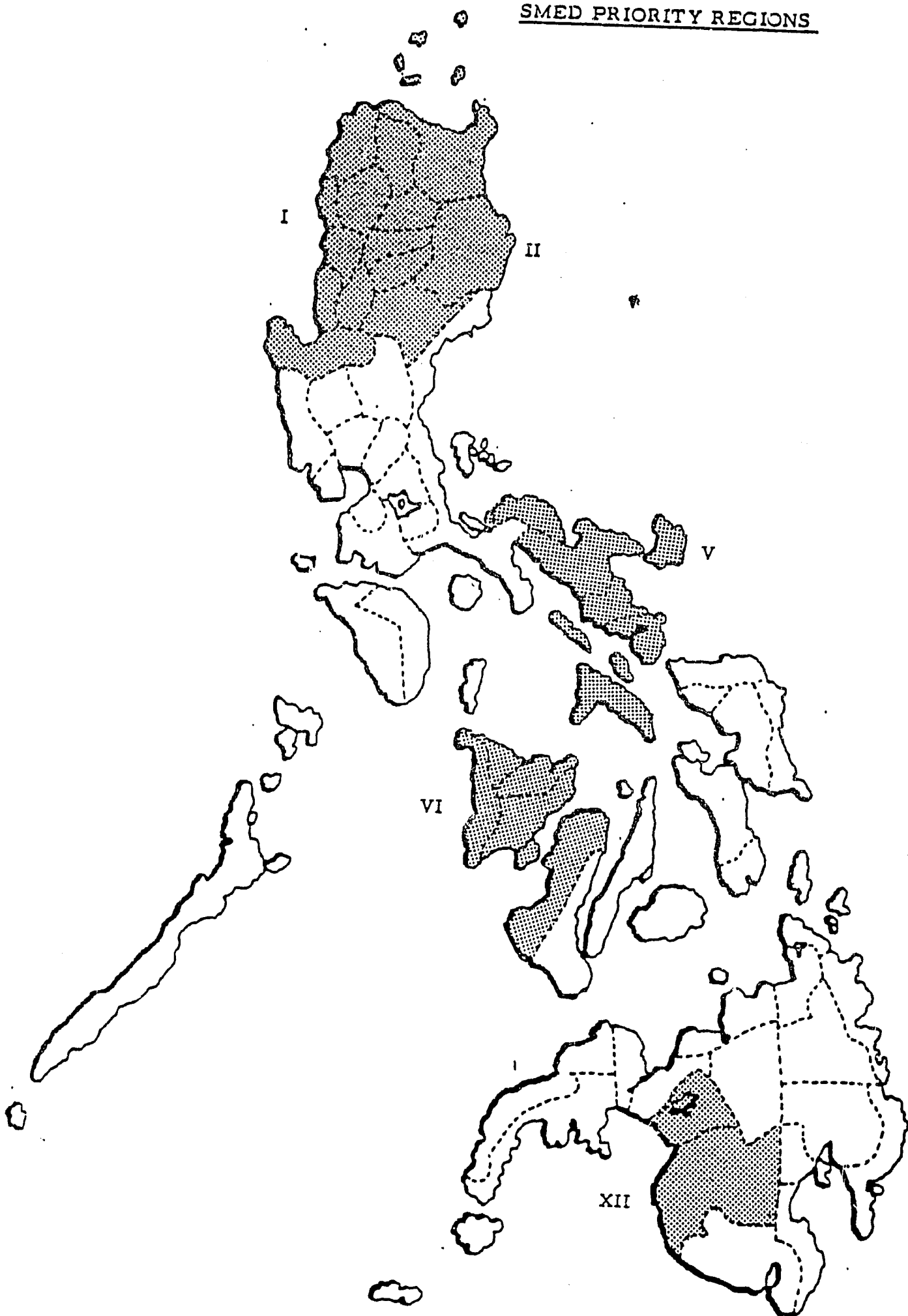
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SMED PRIORITY REGIONS



SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT
FREQUENTLY USED ACRONYMS

AID	Agency for International Development
AIM	Asian Institute of Management
AOD	Accent on Design
BFT	Bureau of Foreign Trade
BIC	Business Information Center
BSMI	Bureau of Small and Medium Industries
CCI	Chamber of Commerce and Industry
CDSS	Country Development Strategy Statement
CESO	Canadian Executive Service Organization
CIPE	Center for International Private Enterprise
CFIP	Chamber of Furniture Industries of the Philippines
CITEM	Center for International Trade Exhibits and Missions
COA	Commission on Audit
COPE	Confederation of Philippine Exporters
DCP	Design Center Philippines
EEPR	Employment and Enterprise Policy Research
GOP	Government of the Philippines
IESC	International Executive Service Corps
ITC	International Trade Center
MEDC	Micro Enterprises Development Component
MEGMA	Market Encounter Goes to Manila
MIDP	Micro Industries Development Program
MIS	Management and Implementation Secretariat, SMED
MOA	Memorandum of Agreement
MTI	Ministry of Trade and Industry

NEDA	National Economic Development Authority
OBM	Office of the Budget and Management
PBSP	Philippine Business for Social Progress
PCCI	Philippine Chamber of Commerce and Industry
PCHI	Philippine Chamber of Handicraft Industries
PEF	Philippine Exporters Foundation
PVF	Philippine Volunteers Foundation
PVO	Private Voluntary Organization
RMIS	Regional Management Implementation Secretariat
SBAC	Small Business Assistance Center
SBI	Small Business Institute
SGV	Sycip, Gorres, Velayo and Company
SME	Small and Medium Enterprises
SMED	Small and Medium Enterprise Development
SMED EC	Small and Medium Enterprise Development Executive Committee
TIAF	Technology-in-Action Foundation
TIIC	Technology and Industry Information Center
TIIE	Trade and Industry Information Exchange
UP-ISSI	University of the Philippines-Institute of Small-Scale Industries
WIFE	Women in Finance and Entrepreneurship

EXECUTIVE SUMMARY
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Philippines

Evaluation of the
SMALL AND MEDIUM ENTERPRISE DEVELOPMENT (SMED) PROJECT
July 21, 1986

I. OVERALL PURPOSE OF THE PROJECT

The purpose of the SMED project is to institutionalize a process of accelerating the growth of labor intensive small and medium enterprises (SMEs) outside of Metro Manila. The process to be institutionalized is one where:

- 1) SMEs will be using increased extension services from private sector sources to increase their productivity and efficiency;
- 2) GOP will have taken active steps towards increasing the private sector's role in providing direct extension services for SMEs;
- 3) GOP will have an effective and self-sustaining program of policy research, analysis and formulation, and
- 4) there will be an active ongoing policy dialogue between the public and private sectors on the SME issues.

Several constraints which inhibit the growth of labor intensive SMEs have been identified, the major ones being the passive attitudes of SMEs to change and their lack of skills to manage resources, weak infrastructure support, weak industry expertise of government and private extension service, and constraints due to government policy and regulations.

The project addresses these constraints by the following:

- 1) by developing and improving the capacity of private sector institutions to directly provide and act as conduits for the provision of extension services to SMEs;
- 2) by developing the capacity of GOP to obtain better information on SMEs and to engage in effective policy dialogue with the private sector on issues affecting SMEs; and
- 3) by developing in PVOs an increased capacity to assist micro enterprises located outside Metro Manila through credit programs, marketing assistance and management training.

To carry these out, the project had three main components:

- 1) institutional development component, which would consist of extension services and demonstration activities carried out jointly by SMED and private sector groups such as PCCI. This was expected to increase the capability of private sector groups to provide services to SMEs;
- 2) employment and enterprise policy research, consisting of research on SMEs and policies affecting SMEs, dissemination of the research finding, and training of GOP staff; and
- 3) micro-enterprise development component, consisting of assistance to PVOs.

This project is related to USAID's overall Country Development Strategy Statement which identifies increased productive employment as its overall goal. Some specific strategies in the CDSS for achieving this are directly related to SMED project, namely, (1) the creation of more jobs in the rural area (both farm and non-farm), and (2) promotion of higher productivity among those already employed.

II. PURPOSE OF THE EVALUATION AND METHODOLOGY USED

This midterm evaluation was specified in the original project agreement between MTI and AID.

The principal methodology used in the evaluation were:

- 1) an examination of the economic and political context during project design through project implementation, and
- 2) interviews and field visits, supplemented by a review of the relevant documents, in the 5 SMED regions and in Metro Manila

III. MAJOR FINDING AND CONCLUSIONS

- 1) the unfavorable economic and political environment was a major constraint to project implementation, especially the resulting budgetary constraints on GOP.
- 2) While associations can be effective conduits for services to SMEs, the choice of the country's poorer regions (where these associations were necessarily weakest) as the areas in which to test this hypothesis resulted in slower project implementation.
- 3) Strengthening associations to be effective conduits to SMEs and to be providers of services to SMEs is a long-term proposition; providing firm-specific technical and marketing assistance may be more successful in increasing the demand for extension services in the short-term.
- 4) The decision not to do research and baseline analysis, and the lack of clearly defined policies and criteria for demonstration projects undermined the project's implementation.

IV. RECOMMENDATIONS

- 1) support a redesigned Phase II of the SMED project with reduced funding;
- 2) re-focus the project, to concentrate on a limited number of activities with clear linkages to project objectives. Retain the existing regions. Projects initiated must achieve demonstrable success prior to extensive entry to other regions; adjust the criteria for geographic extension possibly to include the more growth oriented regions outside Metro Manila. Regarding the sectoral focus, there should be more flexibility in the choice of sectors depending on regional resources;
- 3) incorporate in MTI a contractor who will train, assist, and support staff involved in project development and monitoring systems;
- 4) provide more support to projects already initiated by technical assistance, for example in training methodologies for SBIs, as well as by research;
- 5) integrate the domestic market development and technical assistance efforts into the overall framework of the institutional development component so that they are more supportive of association development;
- 6) separate the micro-enterprise component from the SMED project either as a completely different program to be implemented by a national PVO and/or increase support to the co-financing program of USAID;
- 7) convert project funds to grant rather than loan and assess management implications.

I INTRODUCTION

The Small and Medium Enterprise Development (SMED) Project has its origin in a study on the constraints and opportunities of rural enterprises in the Bicol, Central Visayan and Eastern Visayan regions, carried out by a Philippine consulting firm in 1980. This review initiated the two year process of SMED's project planning and design.

The SMED project found its principal theoretical basis in a 1982 paper by a USAID consultant, Harvey Wallender, entitled "Technology Transfer and Management Issues for New Enterprises." Wallender establishes a model of the process of a firm's decision making. In essence, a firm must be able to identify possible alternatives in order to conceive of the gap between what the firm is doing and what it can do. For example, it is difficult for a small handicrafts firm in Legaspi to conceive of what the Manila market will buy, to say nothing of the U.S. or European market.

As Wallender states in his paper:

"Of special concern is the lack of demand generating programs that could stimulate firms to more vigorously engage in technology change, and exploit available technology and management assistance programs. To provide more vigorous demand oriented programs, efforts must be made to involve more industry and firm specific manpower, information, tools and techniques. These resources will help reduce perceptions of risk and help firms to clarify their opportunities and needs ...

Strong efforts need to be made to enhance private and public networks that link firms, regions, and cities. These networks are essential for the normal exchange of information, concepts and other experiences." (Wallender, H., "Technology Transfer and Management Issues", 1982, p. 1)

This concern for increasing the demand generating capacity in the small and medium entrepreneur is the basis for the SMED approach of using industry associations as the primary conduits for the provision of technical services to small and medium enterprises.

In 1983, the Ministry of Trade and Industry (MTI) in collaboration with the U.S. Agency for International Development (AID) initiated the Small and Medium Enterprise Development Project. This project is financed with \$15 million from AID (\$13.5 million in loan funds and \$1.5 million in grant funds) and \$5 million in Government of the Philippines counterpart funding as well as an estimated \$10.2 million in counterpart funds from the private sector. The loan portion is repayable in forty years with an interest rate of 2% for the first ten years and 3% thereafter.

From its inception, this project was to be implemented on a "rolling design" basis, in which the specifics of the design of the actual subproject activities would be determined as the project progressed. Given the fluidity of the design, the project was to be undertaken in two phases: the first, with a concentration on institutional development and the second, with a greater emphasis on the provision of services.

From 1983 to mid-1986, \$474,073 in AID funds for the SMED project have been committed. (Please refer to Appendix 1, for the specifics of project authorizations and disbursements.) In effect, a very limited proportion of project funds have been released.

A precondition for the release of funds for Phase II in 1987 was a mid-term evaluation. This evaluation was carried out over a five-week period in June and July 1986. It was anticipated that the evaluation team would include three professionals and a research assistant. AID funding constraints reduced the team to two professionals and a research assistant. (Please refer to Appendix No.8 for the Scope of Work of the Evaluation). Over this period, interviews were carried out with AID Washington staff, with concerned parties in Manila and in all five subproject regions.

This evaluation of the SMED project could not have taken place without the very generous and valuable support of the SMED and AID staff, particularly Ms. Zoila Pedro, Mr. Mike Hauben, Ms. Amy Rosete, among many, many others. In addition, I would like to take this opportunity to thank Mitchell Katz, a USAID Intern, for his research assistance.

II ECONOMIC AND POLITICAL CONTEXT

An evaluation of the SMED project is only possible within the context of the economic and political environment during the period in which the project was being designed through the period of implementation.

When the project was designed in 1982, the structural problems of the Philippine economy were only beginning to be recognized. After experiencing an average annual growth of 6.2% (GNP, real terms) in the second half of the 1970's, GNP growth in the Philippines decelerated to 3.2% per annum in 1980-82.

The deterioration in economic conditions was due to both external and internal problems. Following the second oil crisis of 1979, oil prices increased while primary commodity prices declined, mainly because of the recession in the developed economies. The result was a deterioration in the country's terms of trade. The Government response was to resort to external borrowing to finance the increasing expenditures. About half of the country's external debt was contracted after 1979. The increase in external indebtedness, compounded by high interest rates in the world financial markets, accelerated the deterioration of the country's financial conditions.

Nevertheless, with the expansion of the public sector as the main vehicle for stimulating economic activity, and the maintenance on an increasingly over-valued peso, positive if decelerating growth rates were maintained, and inflation was kept down. Although the country's financial markets were shaken in early 1981 when a prominent businessman fled the country with major debts, quick action by authorities kept interest rates and credit availability in control.

The SMED agreement was signed on August 25, 1983, only four days after the assassination of former Senator Benigno S. Aquino as he returned to the Philippines from exile in the United States. This event subsequently proved to be the watershed in terms of precipitating an economic and political crisis that was to eventually bring about the fall of the Marcos government.

Capital flight in the wake of the sudden change in the political situation resulted in massive foreign exchange deficits that could not be offset by a drawing-down of international reserves. Credit lines from foreign banks were reduced and in October 1983 the government was forced to seek a moratorium on external debt payments and begin negotiations for a debt restructuring.

The rescheduling was not finalized until December 1984. In the meantime, the immediate result of the debt moratorium was a drying up of normal trade credits. The peso was also devalued by almost 50%. As a result the real value of imports fell by 16% in 1984 and by a further 23% in 1985. In an economy highly dependent on imported capital equipment and raw materials, the effect, especially on manufacturing activity, was severe. For the first time in four decades there was a decline in real GNP (by 6.8% in 1984 and 3.8% in 1985). Inflation also rose to record levels. Per capita real GNP shrank by nearly 15% since 1983 (a set-back of about 10 years). Financial markets were shaken and credit sources dried up as interest rates rose to as high as 40% for corporate borrowers. The government came under severe budgetary constraints both as a result of the shrinking of its revenue base and as part of the IMF stabilization package which included ceilings on government budgetary deficits, external debt levels, and credit expansion.

The worsening economic and financial conditions were further complicated by the political environment. Widespread political demonstrations, elections for the Batasan (parliament) in May 1984, the deteriorating health of President Marcos, the commission investigating the Aquino assassination, all contributed to rising political uncertainties. The result was a decline in business confidence and the departure of many multinational corporations and foreign investors. In 1984 and 1985, gross domestic capital formation declined by 36% and 21%, respectively.

The situation continued to deteriorate, coming to a head in the last months of 1985 when President Marcos called a snap election that was held in February 1986. This set in motion a train of events that eventually culminated in the four-day revolution and the departure of President Marcos at the end of February 1986.

The installation of a new government brought along a new set of dislocations with a major reshuffle of government personnel as well as economic policies. Mr. Jose Concepcion became Minister for Trade and Industry in March 1986, a new deputy minister for small business and domestic trade was appointed in early July 1986, and the entire ministry is undergoing a major reorganization.

Hence, while the design of the SMED project presupposed a reasonably stable business, economic and political environment, this was not the case during the entire implementation period of the project up to the evaluation in mid-1986. The economic and political problems of the past 2 1/2 years affected both the ability of the SMED office to implement the project as well as the ability of the private sector, especially small and medium enterprises (SMEs), to respond to various programs.

SELECTED PHILIPPINE ECONOMIC INDICATORS

	1982	1983	1984	1985
<hr/>				
I Income and Expenditure (Revised April 1986) (P mil at constant 1972 prices)				
1. GNP	98,568	98,619	91,931	88,432
2. GDP	99,031	99,920	94,214	90,469
a. by Industrial origin				
Agri/Fishery/Forestry	25,465	24,845	25,409	26,010
Industry	35,916	35,955	32,159	28,880
Services	37,650	39,120	36,646	35,579
b. by Expenditure Shares				
Personal Consumption Exp.	63,329	65,348	66,033	66,162
Govt. Current Expenditure	8,978	8,690	8,255	8,205
Gross Capital Formation	26,764	24,923	15,851	12,565
Exports	18,770	19,262	20,846	19,351
Imports	18,904	21,746	18,175	13,995
3. GNP per capita (P)	1,943	1,895	1,723	1,618
II Prices				
Interest Rates				
Manila Reference Rate, 90 days	15.31	15.183	24.251	21.268
Exchange Rate (P/US\$, Jan.-Dec. average)	8.577	11.113	16.699	18.607
Consumer Price Index (all items) (1978 = 100)				
a) Philippines	173.2	190.5	286.4	352.6
b) Metro Manila	176.2	195.3	291.5	351.9
c) Outside Metro Manila	172.6	189.6	285.4	352.7
Wholesale Price Index (Metro Manila) (1978 = 100)	176.3	208.1	346.5	409.3

Source: National Economic and Development Authority (NEDA)

III MAJOR HYPOTHESIS AND RELATIONSHIP BETWEEN PRINCIPAL INPUTS, OUTPUTS AND PURPOSE

The ultimate goal of the SMED project is to enhance the growth of labor-intensive SMEs. The hypothesis is that SME growth outside Metro Manila can be accelerated and sustained by (1) improving information flow and assistance, and (2) improving policy and the institutional environment in which rural SMEs operate. It is assumed that growth in SMEs will in fact increase productive employment in the targetted areas outside Manila.

This hypothesis was to be tested within the framework of private sector institutions. Hence the immediate objective of the SMED project was to be a catalyst in increasing the capability of private sector institutions to carry out the task of assisting in the growth of SMEs. Therefore the project paper saw private sector institutions as being the chief source of assistance and conduit through which assistance is provided, as well as the focus and principal beneficiary of the project. Implicit in this decision is the hypothesis is that these services can and should be carried out by private sector institutions, thereby (1) minimizing the burden on the public sector and (2) ensuring efficiency and sustainability.

The decision was also made to carry out the experiment in the poorer regions of the country, thereby addressing concerns of AID's Country Development Strategy Statement (CDSS), and within those regions, to choose industries with the best growth potential and employment generation prospects.

The measure of success is that when the project is completed, a process will have been institutionalized which is characterized by the following:

1. labor intensive SMEs will be using increased extension services from private sector sources to increase their productivity and efficiency,
2. the Government of the Philippines (GOP) will have taken active steps towards increasing the private sector's role in the provision of direct extension services targetted for SMEs,
3. the GOP will have an even more effective and self-sustaining program of policy research, analysis and formulation, and

4. there will be an active on-going policy dialogue between the public and private sectors on SME issues leading to a much greater role for the private sector in helping to attain the goal of increased productive employment.

In evaluating the SMED project at this mid-point, it is important to bear in mind various factors which constrain both the ability of the government and the private sector to carry out their assigned tasks, as well as the ability of SMEs to respond to project inputs. The paper by Harvey Wallender cited earlier gives certain major constraints/factors which affect the ability of SMEs to respond to change agents. These should be considered in designing project activities:

1. weak industry expertise of GOP extension service
2. inactive SMEs, passive attitude of SMEs
3. weak regional technical infrastructure
4. little extension outreach outside Manila of existing business and professional associations
5. lack of basic planning and marketing skills in SMEs
6. lack of basic financial control and administrative skills within SMEs
7. passive attitude regarding risk taking
8. excessive regulatory requirements of the government
9. weakness of general technical information channels and sources
10. poor access of regional SMEs to technical inputs, critical raw materials and equipment, special incentives.

Therefore, for a project on SMEs to be effective, it must provide a mix of services to deal with these basic needs and constraints in SMEs and in the system. Under the SMED Project, these services will be delivered through associations and other institutions, thus strengthening these institutions as effective channels to SMEs. In addition, and of equal importance, is the generation of a need or desire on the part of SMEs to avail of these services. Given the passive attitude of SMEs to extension services and their resistance to change, this latter function is an essential part of the project's success.

The SMED project paper has a means-end schematic (SMED Project Paper Annexes, "FI Technical Analysis") which is useful in visualizing the relationships of (1) developing the services to be provided, (2) the need for effective channels, and (3) the ultimate benefits to the SMEs. It identifies certain distinct tasks that have to be performed:

1. the project must uncover the best means to strengthen different associations so that they become a major channel for reaching the firm.

2. along with identifying this channel, SME needs must be diagnosed and an appropriate mix of extension services designed which will help relieve the constraints to change
3. these extension services must be such that they result in a more vigorous demand for change that can be related to available technical assistance resources.

Thus the mix of services serves two functions:

1. it strengthens associations and other institutions so that they can be more effective channels to SMEs
2. it provides services needed to improve SMEs.

Project Outputs and Inputs

The project has three planned outputs which mutually support the achievement of the purpose of the project:

1. Private sector institutions, primarily PCCI and industry and trade associations, will have improved capacity to directly provide and act as conduits for the provision of extension services and demonstration activities to SMEs and to represent SMEs in policy dialogue with the private sector
2. Public sector institutions, primarily MTI, will have improved capacity to obtain better information on SMEs and to engage in effective policy dialogue with the private sector
3. Private sector institutions, primarily PVOs, will be better able to assist micro enterprises through credit, marketing and management training programs.

Corresponding to these three outputs are three project components: institutional development, employment and enterprise policy research and micro enterprise development. Their total estimated costs from all sources are \$24.7 million for institutional development, \$2.1 million for research and \$3.4 million for micro enterprise development.

1. Institutional Development Component

This component will develop and improve the capacity of private sector institutions to directly provide and act as conduits for the provision of extension services to SMEs. The specific elements going into this which the project will finance are extension service/demonstration activities, the objective being to create in both PCCI and industry and service associations the capacity to directly provide some services and act as the conduit for the provision of extension services.

The primary SMED inputs are a mix of technical services to build capacity in the associations to help them organize, develop and deliver extension services and sponsor demonstration activities. The primary input in financial terms is financing for demonstration activities and extension services, specifically needs analysis. Other major inputs are workshops and training to improve the capacity of associations and MTI personnel, monitoring and implementation assessments.

The second part of the institutional development component is the improvement of mechanisms whereby the private sector, including SMEs, engage in policy dialogue with the public sector. Primary inputs from SMED are:

- a. technical assistance from MTI and the general contractor focused on identifying policy constraints to growth,
- b. workshops and seminars focused on specific policy issues
- c. information from EEPR component.

In order for these inputs to contribute to the desired output, the project calls for "hands'on" participation by PCCI (primary through its Committee on Cottage, Small and Medium Enterprises) with MTI and the general contractor in forming and strengthening associations during the project implementation.

2. Employment and Enterprise Policy Research (EEPR) Component

The output expected in this area is that by the end of the project, GOP and the private sector will have more effective systems for gathering more information on SMEs, a better understanding of the factors affecting the growth and productivity of SMEs, and there will be an effective policy dialogue between the public and private sectors regarding government policies and programs affecting SMEs.

Inputs to achieve this are various research studies, information dissemination, and training, which would all have a direct impact on the achievement of the desired outputs.

3. Micro Enterprise Development Component (MEDC)

The outputs expected are that PVOs will be better capable of assisting micro enterprises with credit and various training programs. To achieve this SMED was expected to provide financing to micro enterprises primarily through PVOs, as well as provide technical assistance to PVOs to help improve their extension capabilities.

IV SMED IMPLEMENTATION PROCESS

This section reviews the process of implementing the project. It includes a historical overview and discussion of factors affecting project implementation; a review of subproject identification, design, implementation and monitoring; and a discussion of budgetary constraints to project implementation.

A. MANAGEMENT OF THE SMED PROJECT

In the project paper it was foreseen that the organizational structure of the project would be complex. This results from: (1) the complexity of the task, i.e. that of expanding the role of private associations in the provision of extension services, (2) the relatively large number of public and private national organizations and their corresponding regional affiliates, and (3) the important role of a private general contractor as a facilitator in the process.

The project paper envisioned that an Executive Committee and a Management Implementation Secretariat (MIS) would play central roles in the project. The role of the Executive Committee was to review and approve annual extension and demonstration programs submitted through PCCI by regional associations, and to monitor and approve research proposals and micro-industry proposals from private voluntary organizations (PVOs). The MIS, on the other hand, was to be responsible for the day-to-day operations of SMED, coordinating activities for research, institutional development, extension services, demonstration activities and PVO programs.

In terms of implementation, Phase I (from Project Agreement signing to the midterm evaluation) was to consist of three stages:

- Stage 1 - from project agreement signing until the conditions precedent were met.
- Stage 2 - from the completion of the conditions precedent until the availability of AID financing. This would include the preparation of the 1984 budget plan, the preparation of the scope of work for the general contractor and the baseline data contractor, and the search for the general contractor.
- Stage 3 - the project proper, when the general contractor was in place and full implementation of the project would begin.

A discussion of the management and operational aspects of SMED and how they developed can logically be broken down into two phases, the first was the pre-implementation stage from the signing of the agreement between MTI and AID to the appointment of an Executive Director in May 1984, and the second from May 1984 up to the present.

Pre-Implementation Phase

At the start, SMED was a project of the Bureau of Small and Medium Industries (BSMI). The initial months were spent in meeting the conditions precedent, which were finally met in March 1984. The conditions precedent consisted of the legal opinion, signing of the Memorandum of Agreement (MOA) between MTI-PCCI, completion of the overall implementation plan, completion of the micro-component plan, and selection of a program director (this was met by having an acting director.)

During this time also bids for a general contractor for the micro enterprise development component were received from a number of groups, including the University of the Philippines-Institute for Small-Scale Industries (UPISSI), Philippine Business for Social Progress (PBSP), Economic Development Foundation (EDF), and Asian Institute of Management (AIM), but no action taken.

Regarding the General Contractor for the project as a whole, the concept and exact task of the General Contractor was unclear since there had been no experience in the Ministry with this type of arrangement. So action on this was also delayed by the Ministry.

Orientation meetings were held in the SMED regions to publicize SMED, financed with a \$10,000 pre-implementation grant from AID. Meetings were attended by BSMI along with representatives from PCCI, the Philippine Chamber of Handicrafts Industries (PCHI) and others.

The pre-implementation workshops started with discussions about SMED project components, after which regional people were asked what projects they wanted and discussion groups were formed to make recommendations. The results of these workshops were generally requests for training (technical and managerial), financing and marketing assistance.

The Executive Committee was convened in December 1983 chaired by the Deputy Minister of MTI, and including the Deputy Ministers of NEDA and the Budget, the BSMI Director, an AID representative, the PCCI President, and (in 1984) the Presidents of PBSP and AIM.

The Executive Committee held meetings monthly in December 1983, and January, February and March 1984. Shortly thereafter, an Executive Director was appointed and the Executive Committee became much less active. At the meeting in August 1984 the Executive Committee decided to meet quarterly instead of monthly.

An interim MIS was constituted and remained active from December 1983 through mid-1984. The interim MIS met weekly during the period when it was formulating the overall implementation plan which was part of the conditions precedent.

Re-Orientation and Implementation

An Executive Director was appointed in May 1984, with the concurrence of the Executive Committee.

At that point, SMED was upgraded to a regular project office without any line functions, which was attached to the Office of the Minister. The position of project director was upgraded to an Executive Director who also became a regular member of the MTI Management Committee.

In mid-1984 the bidding for an association baseline survey was won by Sycip, Gorres, Velayo and Company (SGV); however, this was never implemented. (The funds were subsequently used for the Operations Review carried out by SGV.) At around this point, the bias of the then Minister of Trade and Industry against research seems to have become an accepted fact. Another major bias of the Minister which was to play a key role in the implementation of the project was the bias towards exports and export promotion.

Shortly after the new Executive Director took over, the message was passed down from the Minister that there would be no general contractor. Among the factors for rejecting the idea of a General Contractor were that MTI felt that it would be a duplication of the SMED project office. Furthermore, the hiring of a top level director seemed to conflict with the notion of a General Contractor which would "provide many of the key inputs into the project, both in terms of project identification, design and implementation". The presence of a long-term contractor (especially one with major foreign components) in a government

office was also problematic. Hence SMED delayed implementation of this.

By the second quarter of 1985, however, it was obvious that the hiring of a General Contractor for the entire project could no longer be delayed. AID applied pressure to hire a general contractor largely by refusing to release any more money from the project's grant portion. The project's grant portion was realigned to include, among others, an allocation of \$600,000 for the general contractor (from \$70,000 as approved in PIL #21). There was also a change in the terms of reference for the general contractor to one where there would be several technical contractors, playing largely a sector-specific and project identification role.

At the end of 1985, MTI and AID formally agreed to the scope of work of the general contractor. In January 1986 the Deputy Minister signed a project agreement authorizing AID to proceed with the contracting arrangements. These contracting arrangements have been kept on hold pending the completion of the evaluation.

Early in the implementation of the project the decision was made to concentrate efforts in Region II. SMED's limited manpower was concentrated in Region II, whereas efforts in other regions were delegated to the Small Business Assistance Centers (SBAC), the regional counterparts of BSMI. The justification was that SMED had limited funds, and Region II (being a difficult region in terms of the availability of government support) would serve as a demonstration of SMED capabilities. Projects developed in Region II were expected to serve as models for other regions.

SMED was designed to have very limited manpower (please refer to section on staffing), and so it was necessary for other MTI units, especially BSMI-SBAC staff, to implement SMED projects in regions. SMED saw its role as one of proposing ideas, which SBACs and private sector proponents would translate into proposals and eventually implement.

In the second semester of 1984, an MTI Project Identification Committee, composed of Deputy Minister Leviste and Directors of the Bureau of Industrial Development, Bureau of Domestic Trade, BSMI, and SMED, was formed. The idea was to come up with an integrated Ministry-wide program for SMEs, pooling together all the different fund sources, rather than each bureau having its own projects and some bureaus having more funds than others. After identification, projects were to go to a Project Evaluation Committee. As a result, SMED project implementation was slowed down. These committees seem to have died a natural

In early 1985, SMED perceived that PCCI was having internal problems. It was also felt that the national chambers were concerned only with Metro Manila, and were vague about project development in the region. SMED felt that it could not get a coherent national program from PCCI, the only national project offered being Trade and Industry Information Exchange (TIIE). There were also no chamber development plans. Therefore, SMED decided to work only with regional chambers of commerce and industries (CCIs) and went ahead with projects in the region.

SMED also perceived that Philippine Chamber of Handicraft Industries (PCHI) was having conflicts with Center for International Trade Exhibits and Missions (CITEM) regarding the thrust of government funding. Furthermore there were problems with national sectoral associations, Chamber of Furniture Industries of the Philippines (CFIP) and PCHI proposals because the SMED Project Office felt that they were unrealistic and not well structured. Partly as a result of these problems SMED decided to work mostly with regional associations.

Funding was also always a problem. In 1983 and 1984 SMED was not on the regular GOP budget (due to the 18 month lead time necessary for projects to be included in the budget). In 1985 SMED was included on the regular GOP budget; however, by the last semester of 1985 GOP budgetary problems were becoming severe. By December 1985 through mid-1986 fund releases were held up by elections and the subsequent revolution and change in government. (See separate section on budgetary constraints.)

The election, and subsequent revolution and change in the government also had major impact on the project starting from the last month of 1985 through the present. The new minister took office in March 1986, the SMED Executive Director resigned later that month, and his deputy resigned at the end of June. A Deputy Minister for small business was appointed only in the first week of July 1986.

Factors Affecting Project Implementation

Among the critical factors affecting the successful implementation of SMED were changes in the project design and certain operational difficulties. The major changes in the project design were:

1. the up-grading of SMED into a project office directly reporting to the office of the Minister and the subsequent decline in the role of the private sector in the project -

When SMED became a regular project office of the ministry, the Executive Committee played a much diminished role and the MIS evolved into a consultative body, making comments on presentations, rather than having a substantial input into project design, implementation and monitoring. The priorities of the government came to dominate the activities of SMED in a very directive way. The tangible impact was the absence of any substantial research effort, and the emphasis on exports. Almost 20% of the net obligated funds from the loan portion of SMED went into export related projects, 12% for CITEM Product Specialist Program, the largest single beneficiary of SMED funds and 7.5% for the Philippine Exporters Foundation (PEF). In terms of funds actually released, these two projects accounted for 35.4% of all funds released from SMED's loan funds, 15.4% for CITEM and 10% for PEF. (See Appendix 1 for details of fund allocations)

A related point is that of the role that PCCI was to play in the project. The project paper envisioned that PCCI would have detailed legal and administrative responsibilities to be spelled out in the memorandum of understanding as part of the conditions precedent. PCCI was to be a permanent member of the Executive Committee and the MIS. The overall role of PCCI was to have been to promote a dialogue between the private and public sectors, and serve as the generator, promoter and reviewer of association activities and research proposals.

The project plan appears to have envisioned much more private sector involvement than is realistically possible. Since SMED was a government body, when conflicts arose with the private sector as to how the project was to proceed, the involvement of private sector groups in the management of the project virtually disappeared. Hence PCCI and other private sector groups played a rather limited role in the project.

2. the role and implementation of the General Contractor -

In the absence of a General Contractor, the full responsibility for implementing the project fell on SMED. The role of the General Contractor was to provide a support mechanism and facilitate project implementation, especially the linkages between MTI-SMED and AID. This was an area where there was no expertise at MTI-SMED. As a result, AID became more involved in monitoring the project than had been anticipated at the start of the project.

A related point is the orientation of the SMED office. The SMED Project is a developmental project which seeks to effect fundamental changes in the way assistance to SMEs is to be given. Many studies have pointed to the resistance to change of rural SMEs. The SMED project thus requires not just direction and project conception, but follow-through and implementation as well. There appears to have been a serious underestimation as to the level of effort required of SMED staff so that "the capacity to directly provide services and to act as conduits for the provision of extension service will be created in both PCCI and industry and service associations receiving assistance from SMED." (SMED Project Paper, pp.11). There was an underestimation of the capability of the private sector as well as SBAC staff in implementing new approaches to SME assistance. There needs to be more investigation as to the relative roles and the level of effort required of both SMED staff, private sector groups and SMEs and what might be done to achieve the project's objective. A general contractor with experience in association development might have provided assistance in this area.

3. the decision to concentrate in Region II -

As SMED stressed, Region II was indeed a difficult region to begin to implement a new, untried project. A baseline survey to assess the absorptive capacity of institutions in the region, their capabilities and needs would have been of great help in designing projects and implementing them.

4. the decision not to do research - (see section on Employment and Enterprise Policy Research)

5. The decision to work mainly with regional rather than national associations, and the decision to work directly with local sectoral associations rather than mainly with national ones.

There are two implications of this in terms of the project. A major output of the project was to have been that by the end of SMED, private sector institutions, primarily PCCI and industry and trade associations, would have improved capacity to directly provide some services and act as conduits for the provision of extension services and demonstration activities to SMEs. All the three major national associations, PCCI, CFIP and FCHI were unanimous in feeling that SMED had diverged from its original purpose.

Furthermore, by choosing to work directly with regional and local sectoral associations the national associations felt that SMED was in fact undermining and making more difficult their efforts at strengthening their regional representation. Furthermore, since those local associations had limited absorptive capacity for assistance (and sometimes had to be formed from scratch such as the Baguio Silver and Brass Association), implementation of the project was naturally slower.

As well there were major operational aspects affecting the implementation of the project, some of the major ones being the following:

1. SMED had predominantly contract staff in head office, with a high staff turnover and no staff in the region

SMED may have underestimated the difficulties of working with a staff that was not necessarily trained nor geared up to do the work entailed in the project. Miscommunications arose, leading to problems, for example, in fielding volunteers from the International Executive Service Corps (IESC) to the regions. (See Appendix No. 2 on Staffing Trends, SMED Office.)

This is not to suggest that SMED should have had staff in the regions, but rather that more effort needed to be made to utilize permanent Ministry staff and train SBAC staff and ensure better communication.

2. Problems between the SMED Project Office and BSMI

While the conflict between a line agency and a project office seem to have been most serious at the head office, there is no doubt that it did not assist in the successful implementation of the project.

3. Other operational aspects significantly affecting the implementation of the project were budgetary constraints and the difficulties in the project design, approval and disbursement process, both of which are dealt with in succeeding sections.

B. SUBPROJECT IDENTIFICATION, DESIGN, IMPLEMENTATION AND MONITORING: STRENGTHS AND WEAKNESSES

From its inception, the operating assumption of the SMED project was that the detailed design of activities to be undertaken by each participating organization will be developed as part of project implementation. This project was to be implemented on a "rolling design" basis, in which the specifics of the design of actual subproject activities would be determined as the project progressed.

Anticipated Subproject Planning Process

The Project Paper identified the annual budget and action plan as the key implementing document. It would present the SMED subproject activities to be carried out during the next calendar year for all three components. It was to contain a detailed definition of the type, quantity, cost and funding method of planned activities for the year.

In the early years of the project, MTI with the assistance of a general contractor, "a consortium of private sector Filipino and U.S. firms," were to be actively involved in developing annual plans of action for each participating association proponent. These plans would be based on needs assessments, and would specifically identify SMED inputs and cost estimates.

Subsequently, the Management Implementation Secretariat and the General Contractor would make the final preparations and present the plan of action including the proposed subproject activities to the SMED Executive Committee and AID for approval.

The Subproject Identification Process

In the early phase of the SMED project, several efforts were underway to develop a data base for the development of subproject activity. For example, a study of industry associations was to provide baseline data for the institutional development component and a contract was signed with SGV to carry out the study. Discussions were underway with the Philippine Chamber of Handicraft Industries to carry out a study of raw material constraints to identify subprojects activity for small and medium enterprises in this sector.

A series of pre-implementation workshops and follow-up meetings were held with anticipated private sector collaborators in Manila and in the project regions. These activities were intended as a promotional initiative for both the institutional and the microenterprise development components, and as a means to identify subproject activity of interest to future collaborators.

However, this needs assessment process was not developed, nor given much priority in this phase of the SMED project. The Ministry of Trade and Industry had a preference for "action-oriented" projects over research. Research-based Projects such as the association baseline study were vetoed. While this is only an example, this approach set the tone for the subproject identification process.

SMED identified four principal strategies for subproject intervention: a) as a change agent in existing institutions; (b) as a catalyst for organizing regional conduits; c) as a catalyst for testing and adopting innovative service delivery processes; and d) as a source of support for existing programs and projects (SMED, "A Primer on the SMED Project"). In effect, SMED took an active, directive role in identifying subproject activities.

For example, as one of its first initiatives, SMED identified small business institutes as an innovative pilot subproject activity, and initiated the development of such a project with Aquinas University in Legazpi City, Bicol. Subsequently, SMED initiated a number of other subproject proposals for small business institutes in Cotabato, and Iloilo City, among others.

The strength of this approach is that a good project idea, such as small business institutes, which builds on the existing local university community extension activities, can become a model for other regions. For example, the project idea was able to be relatively easily duplicated in Cotabato City, Baguio City and Iloilo City.

A weakness is that SMED is often not sufficiently responsive to the given local proponents' project ideas or institutional capacity nor to the need to more fully involve the SBAC staff in the actual design of the project. Consistently, subproject beneficiaries and proponents interviewed complained that SMED was interventionist in its approach in developing memorandums of agreement, that the objectives of the project idea itself were excessively vague and that substantive technical follow through by SMED was not extended.

In addition, the SBAC staff, who are responsible for the follow-on implementation and monitoring process, are in a number of cases not sufficiently involved in the project identification and design process. As a result, the SMED initiative does not benefit sufficiently from the local expertise of SBAC Offices.

The subproject identification process of the SMED project has also been influenced by the relative lack of experience of national industry associations with regionally based project activity. For example, PCCI, CFIP and PCHI had very limited experience in the provision of services in regions outside of Manila. Therefore, SMED chose to initiate subproject activities in the SMED regions independent of the national associations. For example, in Region II, SMED developed the Cagayan Valley Chamber of Furniture Producers Association, and the Cagayan Valley Federation of Handicrafts Producers without the involvement of the national sectoral associations.

This approach may have had its advantages in that subproject activity could get underway relatively more quickly. However, CFIP, the national furniture industry association, and PCHI perceived these subproject activities as undermining their existing regional linkages. The Cagayan Valley Chamber of Furniture Producers is not currently affiliated to CFIP.

Finally, a review of the subproject activities funded reveals a large number of small projects with budgets of 50,000 to 200,000 pesos (equivalent to \$2,500 to \$10,000). According to the former Executive Director, the identification of subprojects of this size was influenced in part by the level of funding authority delegated to the SMED director. The director had the authority to approve proposals up to 200,000 pesos; all requests for more than this amount have to be referred to the Executive Committee. Subsequently, the Commission on Audit (COA) reduced the size of disbursements given budgetary constraints.

The net effect appears to have been to undercapitalize subproject initiatives which limited their institutional growth.

The Subproject Design and Approval Process

The SMED office developed its own diagram on the subproject approval and monitoring process. This diagram, (see Appendix 3 for process flow diagram), presents the review process from the time the proponent approaches SMED to formal approval and disbursement of funds.

The process is multi-tiered and each subproject proposal involves approval at the level of the SBAC regional office, the SMED head office, and AID. At the preliminary stage, a memorandum of agreement is established between the proponent, the MTI and the counterpart institutions. This process is subject to intensive negotiation and project development. Often, the proposal is sent back to the proponent after reviewed by the SBAC staff and then again when reviewed by the SMED head office.

The subsequent stage is the presentation of the subproject proposal to AID. AID is not concerned principally with the memorandum of agreement developed between MTI and the project proponents. Rather AID is concerned with the substance, the budget and the self-sustainability of the actual project proposal. Again, the proposal could be sent back to the proponent for further documentation, revisions, etc.

This approval process does allow both MTI and AID to review the subproject proposal in relative detail. However, the extent of requests for additional information and for revisions both by SMED and by AID suggests that the policy guidelines for subproject approval should have been fully clarified at the start of the SMED project.

For example, subproject proponents have often not been fully advised that the Ministry is able to finance projects only on a calendar year basis. Therefore, in an effort to do long term planning, they propose a two to three year work plan, and expect funding for that time period. In other cases, they have not been informed that a 30 percent private sector counterpart funding is required, until after they have already committed themselves to the project.

Similarly, project proponents, including the local institution and SMED, have not been consistently advised of AID project proposal guidelines, contracting procedures, commodity procurement procedures, conditions of agreement, (e.g. audits, marking of project commodities), honoraria for governmental and non-governmental officials. In fact, there has been a lack of mutual understanding between the Ministry and AID as to what can and can not be funded under the SMED project. Neither AID nor SMED have been clear about their subproject approval policies and their operating procedures.

Another serious point of confusion for both AID and Ministry staff was the long term projections for a given subproject. The Ministry budgetary regulations require that Memorandums of Agreement be signed for project activity for one given year. In other words, the agreements can not include commitments to project collaborators for subsequent years.

A primary concern of AID is the long term planning and sustainability of a project activity. The subproject beneficiaries, interviewed in field visits, consistently stated that the short term nature of the funding had a destabilizing effect on the project, specifically it inhibited the commitment of technical staff to project activity and undermined relations with counterpart sources of funding.

Initially, to respond to the need for guidelines, the SMED office prepared a proposal to develop a project implementation manual, but the Minister vetoed the initiative. For its part, AID provided SMED with subproject proposal guidelines in a letter dated 30 August 1984. (See Appendix 4 for copy of Project Implementation Letter No. 13.)

These AID guidelines were presented in discussions and workshops with the SMED Executive Director and staff, who agreed to implement them. SMED did not uniformly disseminate the guidelines to the regional staff nor internalize them in subsequent proposals. AID considered it impractical to train directly the many subproject proponents in the regions.

A similar situation evolved with regard to AID procurement regulations and marking of US-finance commodities. The pertinent AID guidelines were submitted in writing and discussed with SMED staff. It was AID's communicated expectation that SMED would not proceed with commodity procurement without AID's involvement. MTI pressure to proceed hurriedly did not allow such AID guidelines.

It is relevant to mention that the project paper anticipated that technical assistance from a contractor familiar with project design and A.I.D. procedures would serve to help proponents to develop "fundable" projects. As the Ministry and AID were unable to agree on a scope of work for the contractor until the fall of 1985, it was not possible for the project to benefit from such services in the first phase of the project.

Subproject Implementation Process

The SBACs were responsible for the supervision of the subproject implementation in the region. However, problems arose in that SMED staff often came into the region with prepackaged project design and operated independent of SBAC or without their full collaboration. Therefore, SBAC staff are often not fully involved in the original design of MOA, which limited their monitoring capacity over the implementation.

Implementation was also hampered by the lack of authority of the staff sent out by the SMED to the region. Project collaborators in the region presented queries to SMED staff on field visits, but the reply often had to "come from head office".

A very serious factor affecting implementation was the release of the project funds to the beneficiary after the Memorandum of Agreement was signed. As a table on the flow of project funds indicates (see Appendix 5), actual funds were released often six to nine months after the memorandum of agreement was signed.

The reasons for this delay are numerous. First, the SMED office had to get a project implementation letter from A.I.D. approving the proposals either as presented or in principle with further supporting documentation to be supplied at a later date. The Management and Budget Office of the Ministry would not prepare a check unless a Project Implementation Letter was received. For AID, a major problem was that the proposals presented by the intended project beneficiary were not fully developed. Finally, the snap elections and the revolution put a hold on the disbursements of all checks from approximately December 1985 through June 1986. (See section on budgetary constraints and their effect on the SMED project.)

Monitoring of Subproject Activities

Monitoring of subproject activities has been principally the responsibility of the SBAC staff based in the regional offices. SMED staff monitor subproject activity on an as-needed basis, but their staffing constraints seriously limit their effectiveness in overseeing field activities. Nonetheless, for both SBAC and SMED, the delay in release of funding for project activities for institutional development and particularly for microenterprise development undermined MTI's credibility as a monitoring agent of project activity.

The SMED project extended funding to the management auditing firm, SGV, to develop guidelines for monitoring project activity. SGV prepared a set of "Guidelines to Project Proponents on the Preparation and Submission of the Quarterly Project Status and Terminal Reports" and "Guidelines to Projects Officers on the Implementation of the Project Reporting System".

SGV was also contracted to carry out operational reviews of a series of subproject activities supported by SMED in the project regions.

These documents are important and useful first steps in the development of an information system to track subproject performance and activities. Several subproject beneficiaries interviewed commented on the monitoring systems developed to date. The consistent reaction was that SMED is interested in time consuming reporting, but not in hands-on technical monitoring of project activity. Many were dissatisfied with the type of information requested on the "Accomplishment Report" forms developed by SGV.

A review of these reporting forms reveal that the data requested is:

- a) type of activity
- b) measure of performance
- c) performance (actual and target/planned)
- d) explanation of variance
- e) corrective action recommended
- f) remarks.

This type of data does not provide the project with any substantive indicators of level of activity and number of beneficiaries over time; nature, appropriateness and cost of services; the type of businesses and/or associations services; effect of activities on beneficiary firms. The forms could be revised to include more programmatic indicators.

The operations review of subproject activity by SGV are useful means of documenting the progress of project activity, based on to the agreements developed by the proponents, and of developing specific guidelines for further action. These documents are valuable as programmatic audits; however, they do not replace the on-going requirements for technical input to oversee project development.

There has been a decided lack of monitoring by technical specialists in a given programmatic activity in the SMED project. One such technical monitoring was especially well received. Dr. Frank Scott, an International Executive Service Corps (IESC) volunteer/consultant, visited and evaluated and advised existing small business institutes throughout the Philippines. Three of the six SBIs visited specifically mentioned how useful the input from this IESC expert was. While this is not the only approach to project monitoring, assistance and consultation with appropriate specialized technicians will strengthen the subproject activity.

C. BUDGET CONSTRAINTS AND THEIR IMPACT ON THE SMED PROJECT

As mentioned in the Project Paper, the disbursement of SMED funds would follow standard GOP and AID procedures.

The GOP budget is on a calendar year basis and line item requests require a lead time of about 18 months. Funding in 1985, for example, requires that budget preparations start in the last quarter of 1983 and be completed by the first quarter of 1984. 1985 budget reviews start in March 1984 and are completed by July. Following this the budget is submitted to the Batasan and the General Appropriations Act is passed by around September 1984.

The signing of the SMED agreement in August 1983, precluded the inclusion of expenditures in 1983 and 1984 in the regular GOP budget. For this period, the project was funded from the regular BSMI budget and from the lump-sum Foreign-Assisted Project Support Fund. Since BSMI had its own program and demands from the Foreign-Assisted Project Support Fund generally exceed fund requests, the funds actually granted to the SMED project during this period were necessarily limited. The scarcity of funds was made even more pronounced by the extraordinary strains on GOP finances as a result of the crisis in the economy and financial markets starting in the last quarter of 1983.

The first year for which SMED was included in the regular GOP budget was in 1985. On December 15, 1984, however, the IMF stabilization package (which was a condition to granting standby credits to the Philippines) was signed. Availments from the standby credits were in quarterly tranches, subject to IMF review of GOP adherence to certain major agreements. There were nine specific criteria in the agreement, including ceilings on reserve money and banking system credit to the public sector, a cumulative ceiling on deficits of GOP and 13 major public enterprises, and ceilings on external debt and external payment arrears.

As a result the ability of GOP to release funds became a critical constraint to operations. This affected the project in two major ways: requests for budgetary approval were cut back by roughly 50%, and in the second semester of 1985, GOP cash disbursements were made for only 50% of the amounts approved or not at all.

Constraints on overall GOP deficits affected both the GOP counterpart portion, as well as the amounts that could be allocated from the AID-financed loan portion, the latter being limited by the ceilings on new external debt.

Regarding cash disbursements in the second half of 1985, GOP policy was to impose quarterly disbursement ceilings on amounts to be released per project. This had major operational implications especially since the initial funds were generally for capital expenditures which were difficult to spread out over the year. Furthermore, another policy was to release only 50% of the approved amount. The balance was disbursed only as project proponents liquidated the amount already received (although partial liquidation was allowed). This added considerably to the paper-work and number of transactions necessary between the Commission on Audit (COA, which actually authorizes fund releases), SMED, AID and the project proponent.

As the year wore on and the financial crisis deepened, COA became more strict on fund disbursements. Even the 50% fund releases stopped and project proponents were expected to advance the funds which would then be reimbursed later.

Towards the end of 1985, a new source of problems arose when President Marcos called for snap elections to be held 7 February 1986. The Omnibus Election Code calls for a moratorium on releases of government funds 45 day prior to the election. Hence, from mid-December 1985 no checks could be released to SMED projects. This moratorium continued as the election was followed by the revolution and change in government and the need for the new government to review all checks. The blocked funds were finally released only at the end of June 1986.

The delay in releasing funds resulted in a major loss of confidence and enthusiasm for SMED projects especially in the regions. This was not helped by the confusion regarding procedures for liquidation. It was only after the SGV Operations Review was completed in the third quarter of 1985 that standard reporting forms were instituted. The Finance Officer also toured the region in mid-1985 to explain the desired procedures, but it is estimated that this will require constant follow-up before procedures are standardized.

V. INSTITUTIONAL DEVELOPMENT COMPONENT

This major component of the SMED project was to develop and improve the capacity of private sector institutions to directly provide and act as conduits for the provision of extension services to SMEs. Associations would also be assisted to better represent SMEs in policy dialogue with the public sector.

When the project is completed:

1. Selected associations with support from contractors will have the capacity to directly provide or act as conduits for more and improved extension services and demonstration activities for SMEs.
2. MTI will have improved its capacity to assist private sector SMEs at the industry level.
3. PCCI as well as other industry and service associations will be able to represent SMEs in national and industry level policy dialogues with the public sector.

To achieve these objectives, the SMED project will finance technical assistance, extension services and demonstration activities, workshops and seminars, project monitoring and evaluations, and GOP training.

The SMED office's approach to institutional development was to promote national or regional associations, federations, chambers and educational institutions as a source of industry-specific services or as a conduit of these services for the small business sector.

The programs in this component include:

- a) chamber development program;
- b) domestic market development program;
- c) training-related program;
- d) technical assistance program, which includes the volunteer and expert advisory services.

A. CHAMBER DEVELOPMENT PROGRAM

1. Philippine Chamber of Commerce and Industry (PCCI)

The Philippine Chamber of Commerce and Industry (PCCI) is the principal association in the Philippines representing the concerns of the private sector. At the initiative of the previous administration, PCCI has assumed the role of being the "single voice of industry."

PCCI, as a permanent member of the SMED Executive Committee, was anticipated to play a major role in the development of the project, particularly in the promotion of chamber and association activity in the SMED regions.

The original project paper assumed that the Committee on Cottage, Small and Medium Enterprises (CSME) of PCCI would play the lead role in assisting in the development of new associations and chambers, and would operate as "an umbrella organization for associations". It was anticipated that SMED financing would enable PCCI to hire staff to work on this regional chamber and association development activity.

In May 1984, a memorandum of agreement was signed by PCCI and the Ministry of Trade and Industry concerning anticipated responsibilities under the SMED project.

The main responsibilities of PCCI were as follows:

1. Help MTI through BSME to formulate a plan for the development and promotion of SMEs;
2. Initiate and undertake organization of regional PCCI chambers and affiliates and promote association building among SMEs in close coordination with MTI through BSME;
3. Participate in the formulation of policies and guidelines governing the implementation of SMED;
4. Provide adequate and staff support within PCCI for the implementation of the project;
5. Serve as a channel and/or originator of proposals and as a conduit for the extension of services to SMEs;

6. Strengthen the channels of communication and promote, encourage and assist in the conduct of dialogues, between the public and private sector.

The main responsibilities of MTI, with reference to PCCI, were:

1. to be responsible for the overall implementation of the project;
2. to provide the Management Implementation Secretariat with sufficient staff to carry out the project;
3. through its regional offices, to assist the associations in the determination and presentation of project activities to be undertaken;
4. to extend reasonable and appropriate support to PCCI programs;
5. through BSMI and other government entities, to continue to dialogue with the private sector on the technical and policy issues affecting SMEs.

a. Activities

While these intentions were laudable, substantive collaboration between PCCI and SMED did not materialize as anticipated.

First of all, as SMED was responsible for the approval of funds for all subproject activity, PCCI had limited effective control over the use of these funds. At the beginning of the SMED project, PCCI anticipated that a sizable portion of the project funds would be channeled directly to the national chamber to support their regional development program. For PCCI, the SMED project did not result in real private sector/public sector collaboration for regional chamber and association development. Over the course of the project, PCCI came to be of the opinion that the SMED project was "just an adjunct of MTI."

As the project progressed, the SMED office adopted a policy of operating increasingly on their own in promoting association development, for example, in silver and brassware in Region I, and in furniture in Region II. In the view of SMED's staff, PCCI lacked the institutional capacity and commitment to develop a coherent program for regional development in 1984, when the project first got underway. Therefore, to get specific subproject activity going, SMED began developing association support programs independent of PCCI, although with their consultation.

Over the course of the first phase of the project, SMED extended 1,003,267 pesos in project funds directly to PCCI for a series of activities: a PCCI promotional workshop with regional chambers; the Trade and Industry Information Exchange (TIIE) program; the Documentation and Rerunning of the Product Specialist Program. SMED extended nearly 300,000 pesos in project funds for regional chamber development and for the establishment of Business Information Centers. These funds were provided directly to the regional or provincial chamber, or the institution designated as the local project collaborator in the SMED region. However, no funds were disbursed to PCCI to cover their requirements to support a PCCI regional chamber development program.

Trade and Industry Information Exchange (TIIE)

TIIE was conceived as an integrated information system, in which data from MTI and PCCI would be available to users of both institutions. While discussions on TIIE began in 1984, the project was activated only recently with the delivery of two IBM Personal Computers. The original link was to have been between PCCI and TIIC (Trade and Industry Information Center) which handles the Library of MTI. However, an information center was set up at the Bureau of Foreign Trade (BFT) and eventually the information tie-up became between PCCI and MTI-BFT. Staff of both PCCI and MTI-BFT are currently undergoing computer training.

PCCI expects to have assistance from the International Trade Center (ITC) in setting up the system. PCCI has also recently started a survey among its members to identify priority needs and information requirements. For its part, PCCI will be responsible for company profiles and association-related activities. To date, PCCI has received one computer but no other assistance, although they expect other equipment such as a mimeographing machine.

Information supplied from MTI-BFT will consist of trade statistics, lists of foreign buyers and lists of manufacturers, and market intelligence. BFT need for the computer was based on the premise that fast moving information is required for market matching.

The original plan was to set up the system in Manila and eventually link up with the regions, however, some Business Information Centers (BICs) have already acquired computers before the TIIE system was fully set up.

Business Information Centers (BICs)

The Business Information Center program has as its principal objective the dissemination of trade and business information to SMEs. The BIC was to be a channel of PCCI and the MTI's Trade and Industry Information Exchange project to provide appropriate data required by SMEs in the SMED project regions.

As a result of SMED project support, fifteen Business Information Centers have been inaugurated. The large majority of these centers received modest funding and were formally established only in the third quarter of 1985. To date, the funds have been used principally for the purchase of equipment and computers for information transfer, typewriters, and photocopy machines and for some workshop and seminar activity.

Over the course of the project, the BICs' function has been expanded to include: (a) services as PCCI secretariat; (b) as a data bank and library; and (c) as a source of centralized services, e.g. telex, typing, printing, duplicating. A secretary general was to be appointed to head the BIC, assisted by two staff members.

The BICs were originally conceived to operate as independent units. However, the BICs have come to be based primarily in the offices of the provincial chambers of commerce and industry, or the small business institutes. This development may have served to increase the operational viability of this initiative.

Three fundamental issues remain which bring into question the potential effectiveness of the BICs over the long term. First, it is unclear at this point whether full use can be made of the equipment purchased, such as computer facilities, to tap a central information exchange in Manila for the SMEs information needs. The computer facilities are currently not being utilized in the BICs visited. As an SGV report on several BICs points out, "the feasibility of having such an exchange has not yet been fully established, when this can be implemented, and what information can the central exchange disseminate to the regional BICs." (SGV, "Business Information Center, San Fernando, La Union, and Tuguegarao, Cagayan, Operations Review", February 1986.)

Second, the user information needs have not yet been defined. Given the sector-specific nature of the information required by small entrepreneurs, it is unclear to what extent an SBI or provincial chamber can realistically serve the wide variety of productive sectors and actually respond to their requirements.

Finally, the actual effect of the BICs appears to have been to indirectly support provincial chamber development. It may be more valid to extend assistance for the purpose of chamber development specifically, as a means to stimulate information flow. It may be premature to overwhelm the provincial chambers and SBIs with responsibilities for an elaborate information system which they may not yet be able to handle.

Documentation and Re-Running of Product Specialists

This is a project of PCCI to document a series of five modules on the following topics under the program called "In Search of Product Excellence":

1. ceramics
2. wood-based furniture manufacturing
3. wood-based furniture finishing
4. wood-based furniture joinery
5. wood-based furniture machining

To date the first two modules have been completed, the third is in the process of being produced, and scripts for the last two are being prepared. The modules will be used at PCCI training seminars.

Regional Chapter Development

In 1984, PCCI Regional Affairs Division initiated activities to strengthen the ties of the private sector in regions outside of Metro Manila, particularly in the SMED project regions. Tasked to spearhead regional chamber development, PCCI made preparations to support SMED's program development. The Committee on Cottage, Small and Medium Enterprises of PCCI has been relatively less prominent in regional development.

First, the need to develop an information base necessitated the updating of membership rosters and listing of sectoral and affiliate organizations. To date, PCCI has identified a total of 81 local Chambers of Commerce and Industry (CCIs) throughout the country. This figure represents the actual number of existing local CCIs, including the PCCI affiliates and members and non-members. In Appendix no. 6, Table I provides this data with a breakdown on a regional basis.

The SMED program targetted assistance to the following: Regions I, II, V, VI, XII. Out of the 81 identified local CCIs, the SMED Regions incorporate 34 CCIs (see Appendix 6, Table II) which accounts for approximately 42 percent of the total CCIs. The balance, 58% of the total or 47 CCIs are distributed in other regions (see Appendix 6, Table III).

Largely at the initiative of SMED, with the collaboration of PCCI and the support of the regional SBAC staff, a secretariat serving both the Bicol region and the Albay province was established. While the financial self-sustainability of the regional chamber remains an issue, the Bicol/Albay Chamber has been active in organizing chambers throughout the region. For example, chambers were developed in Naga City, Iriga City and Rinconada, Camarines Norte, Catanduanes, and Daraga in 1985, while the Sorsogon, Bulan and Masbate chambers were "revitalized". The SMED project also assisted in the development of the Aklan Chamber of Commerce and Industry.

Such provincial and regional chamber development is a positive sign. However, it is unclear the extent to which these new chambers are effective long term participants in regional chamber activities and are representative of the private sector in the region.

The SMED project also initiated the organization of a Regional Management Implementation Secretariat (RMIS) in Cotabato City, headed by the Regional PCCI governor. The validity of this RMIS as a SMED program activity is questionable. Region XII project collaborators interviewed were confused by the SMED objectives in this project and were unsure of the long-term sustainability of the RMIS without adequate local institutional linkage and secretarial support. The tremendous distance between the provinces in Region XII creates a structural problem from the very start. In 1985, SMED abandoned the idea of RMIS as an MTI activity. All PCCI related subprojects funded by MTI are to be converted to Business Information Centers (BICs).

b. Trends in Chamber Development

From 1982 to 1986, there were significant changes in the chambers comprising PCCI membership. In 1982, membership totalled 18 and increased to 23 in 1984. In 1986, there was a marked progress with the doubling of the membership to a total of 48 member CCIs (see Appendix 6, Table 4).

The SMED regions exhibited dynamic growth in the number of CCIs over the project period. For two recorded years, PCCI affiliates in the SMED regions remained stagnant. In both 1982 and 1984, only five members were affiliates. But by 1986 the number of affiliates had increased by almost five times.

In terms of performance, the provincial chambers in the SMED regions exhibited a better revival trend between 1984 and 1986 than the rest of the regions, with 19 CCI affiliations as compared to six affiliates from the other regions (see Appendix 6, Table 6). In the SMED regions, ten non-members remain to be affiliated, which is roughly 30% of the total non-participating CCIs (see Appendix 6, Table 8).

In addition, a comparison of the 1986 figures of the total number of CCIs compared with PCCI affiliates reveals that the conversion of non-members is higher in the SMED regions than in the other regions (see Appendix 6, Table 9).

Nationwide potential for further PCCI chamber growth exists as 33 non-member chambers, or 48% of the total universe, could be affiliated in the future (see Appendix 6, Table 7).

Sectoral Association affiliates to PCCI have demonstrated a rise in number from fifty-one in 1982 to eighty-nine in 1986 (See Appendix 6, Table 10). However, these associations are based exclusively in Manila (see Appendix 6, Table 11).

This general trend of significant growth in chamber development was confirmed by a series of structured interviews with the heads of seven provincial chambers in the SMED regions including one non-PCCI affiliates. However, the emergence of the Negros Business Forum in Bacolod City of Region VI, which is a non-PCCI affiliated business association, suggests that PCCI is not always the single voice of industry.

Nearly all of chambers and associations had been in existence for more than ten years; however, most had been dormant until 1984, when increased attention was given to organizational development.

In 1983, none of the interviewed associations had any staff, not even a secretary. All relied on the volunteer help of the chamber leadership, usually the loaned secretarial support of the Chamber president. 1986 marked a substantial organizational change for the interviewed members. Four of the seven had a secretariat, consisting of three to four paid Chamber employees. The majority of these are administrative or clerical employees. The other two continued to rely on the volunteer support of the leadership.

Membership has increased substantially in half of the chambers surveyed in the SMED region. In two, membership remained stable, although there was a strong interest in expanding the membership base of the chamber in five of the six chambers surveyed. In each of the chambers, the President cited the economic crisis of 1983 onwards as having a very serious effect on their membership's viability.

The sources of chamber financing also changed considerably in the 1984 to 1986 period. Two thirds had received funding from the Center for International Private Enterprise (CIPE), a program managed by PCCI to support regional chapter development. This program specifically financed the staffing of the secretariats in the chambers. Half of the chambers interviewed had received SMED funding, principally to support the establishment of the Business Information Centers. Previously, chamber activity was financed almost exclusively by membership dues, ranging from 250 to 650 pesos annually.

Training and dialogue activity increased significantly in all those chambers with funding either from CIPE or SMED. Consistently, the services mentioned as having the greatest spread effect were the tax seminars; dialogues and networking services available through chamber contacts; and the "Improve Your Business" program. In the four chambers with dialogues and seminar activity approximately half of costs of these activities were covered by fees for participation in dialogues and seminars, while the other half was covered with SMED or CIPE support.

Half of the chambers surveyed characterized SMED assistance as "poor", though two found it to be "good". The principal problem cited in relations with SMED has been the slow response to requests; the lack of direct assistance; or the minimal contact. Relations with SBAC staff were rated somewhat higher, with half characterizing their support as good. The funds disbursement problems of the Ministry have affected these relations.

Two thirds of the chambers surveyed found PCCI outreach to be good, while the other third found it to be inadequate.

The major problems cited by Chamber presidents in the provision of services to SMEs in general has been the lack of direct outreach to businesses; the lack of working capital; the poor follow-up by technical services; and the government bureaucracy.

Half felt that the services provided by the Chamber to date had not responded to the needs of small and medium businesses, while the other half felt they had responded greatly or moderately.

The leadership and the composition of the chamber membership appears to be relatively elitist, representing the interests of principally the upper echelon of local society. Lawyers, accountants, real estate, construction, large scale agricultural producers tended to predominate over the manufacturing sectors in the chambers surveyed.

Analysis

There are numerous factors which can be considered in analyzing behavioral trend of PCCI membership and their views on services extended to date.

The SMED program has been a fundamental factor influencing these developments. The promotional activity in the relevant regions did stimulate chamber development. However, much of the SMED financial support to the chambers, e.g. through the Business Information Centers (BICs), came only by the third quarter of 1985. The results of the support to TIIE and the product specialists modules have yet to reach the local chambers.

A critical factor in this provincial chamber development has been the Center for International Private Enterprise Program (CIPE). Though coming much later than SMED, the CIPE program has made its presence felt resulting in tangible material output; despite the short term digestion period. For example, each of the SMED regions, as well as Region III, now has a secretariat.

Another factor has been "Improve Your Business (IYB) Program" of the International Labor office. This is a project envisioned to assist the Employers Confederation of the Philippines (ECOP) and PCCI to develop an effective and efficient network of regional chambers of commerce and industry by upgrading existing businesses who comprise their membership. IYB workshops have been conducted in Tuguegarao and Cebu City to date, and will be conducted nationwide by regional CCIs.

Another instrumental factor has been the organization of the Business Action Group (BAG). PCCI established BAG to ensure that resolutions and projects identified in the 11th Philippine Business Conference were being implemented. It is composed of PCCI and government officials tasked with the responsibility of implementing the results of the 11th PBC. Each region has a Regional Business Action Group (RBAG), which meets regularly to follow up on regional projects.

Finally, a fundamental issue is the extent to which this chamber development is a "real" phenomenon which will result in an increase in effective participation by the provincial chambers with an impact on policy and firm growth in the SMED regions. It is too early to assess what has been the effect to date, except to say that there has been a significant increase in activity. The emergence of the very active Negros Business Forum with no outside funding raises the issue of the PCCI as the only channel for support for industry association development.

In addition, an issue of concern in the long term is PCCI's commitment to regional chamber development. At the present time, PCCI as an institution is concerned with the import liberalization program, with labor issues, and the general investment climate. Regional expansion appears to be a secondary issue for PCCI, which may have implications for the project in the future.

2. Sectoral Association Activities

A principal hypothesis of the SMED project is that industry associations can operate as effective conduits of services to the small business sector.

With regard to sectoral industry associations, SMED has developed project activity with national chambers including the Chamber of Furniture Industries of the Philippines (CFIP), the Philippine Chamber of Handicraft Industries (PCHI), and the Philippine Exporters Foundations (PEF).

At the regional level, the project facilitated the development of the Cagayan Valley Chamber of Furniture Producers Association, the Cagayan Valley Federation of Gifts and Houseware Products, and the Baguio Silver and Brass Association.

1) Chamber of Furniture Industries of the Philippines (CFIP)

CFIP is a nationwide organization recognized by the Philippine government as the official body representing the furniture sector. Organized in 1966, CFIP is also the only furniture manufacturers' association in the country. At present, CFIP is involved with the support of the government, in furniture export development program in response to the increasing interest of foreign furniture manufacturers and distributors in Philippines products.

For foreign importers of Philippine furniture, the Chamber extends assistance by providing information on products, prevailing prices, etc., and arranging appropriate contacts with its membership.

CFIP has grown significantly since its inception in 1966 to 320 members today. From a purely Metro Manila-based operation, it has expanded its regional chapter membership from three in 1972 to eight in 1981 to thirteen in 1986. (see Appendix 7). Its Manila-based membership has declined largely as a result of the economic crisis.

To adapt to the demand of the current situation, there is need for furniture makers to go beyond the informal and traditional ways of handling their business. In keeping with this objective, the Furniture Development Program (FDP) is being implemented by the CFIP and supported by SMED.

The program seeks:

- to expand the services of the CFIP to its members; and
- to increase the productivity of the furniture sector through improved product knowledge and development.

The major activities under the Program include:

- a. Publication of a monthly journal for the industry
- b. Chapter formation in the different regions
- c. Inventory of manufacturing facilities, raw materials, skills and others
- d. Identification of common needs and problems of the industry
- e. Development of a training program
- f. Strengthening of the sector's linkages
- g. Organization of a Data Center.

CFIP is the principal institutional facilitator for the implementation of the Program, assisted by Leverage International (Consultants).

A memorandum of agreement was signed by CFIP and MTI in August 1985, and 251,000 pesos in project funds were released in June 1986.

As of the present time, FDP brochures have been distributed and the Eucalyptus Journal has been started. The main thrust of activities, however, is institutional development both of CFIP and its regional chapters which can serve as effective conduits of assistance to members in the regions. As in the case of PCHI, the professionalization of the association to ensure its survival despite changes in leadership and individual members is seen by CFIP as the major objective of the program. However, initiatives by the SMED project to directly develop regional associations in the furniture industry such as Cagayan Valley Chamber proved destabilizing to CFIP's regional outreach program.

b. Philippine Chamber of Handicraft Industries (PCHI)

PCHI is an association of handicraft producers and dealers and related services. It was established in 1967, and currently has about 150 members. Roughly 50 percent of its members have been with the Chamber for the past 10 years, and it is estimated that PCHI members account for about one-third of Philippine exports of handicrafts. PCHI maintains a secretariat at Philtrade Center with a permanent staff of four employees.

Most of the activities of the Chamber consist of participation in dialogues with the government in areas concerning handicrafts and SMEs. PCHI also runs the "Export Pavilion", a shopping area where members rent booths for their products. A percentage of sales is paid to the Chamber, largely as a result of which PCHI built up a fund of about P1 million. In 1985 the PCHI Research and Development Foundation was set up with these funds. The Chamber has also run some training seminars, and disseminates information relevant to its members. Another major activity is assisting members' participation in international trade fairs, such as the recent World's Fair in Vancouver, Canada.

PCHI was one of the original associations identified as a principal conduit of SMED services. Discussions between PCHI and SMED date back to the start of the project although a Memorandum of Agreement was signed only in September 1985 and the funds released at the end of June 1986. The MOA identifies a number of activities, namely:

1. Chamber development
2. A baseline study of raw materials
3. Project "HARVEST" on the development of community-based production centers as suppliers for PCHI members.
4. Accent on design project
5. Training workshop series
6. Domestic missions
7. Cottage Industry Technology Center and regional CITCs
8. Regional training committees
9. Speakers registry.

The major activity, however, is the baseline survey of raw materials to provide information on which to base projections for handicrafts production and to guide government policy in this area. Since the funds were only released to PCHI in mid-June 1986, the project is just starting. With respect to the other activities mentioned above, PCHI is only expected to encourage its members to participate.

The Chamber supports the idea behind the SMED project of strengthening associations. A problem of associations is that leadership is transitory. To ensure permanence the staff must be professionalized, and this is where they wanted assistance from SMED. PCHI feels, however, that the original concept of SMED has been lost as it has gone ahead to support other projects, including setting up rival sectoral associations in the regions.

PCHI has only one chapter in Pangasinan and would like to set up another but does not have the funds to sustain this activity. PCHI wanted to organize product groups within PCHI but SMED has encouraged the formation of separate groups. When these groups are set up with assistance from SMED, they do not then want to affiliate with PCHI.

Because of the less than satisfactory working relationship with SMED, PCHI is somewhat skeptical of its activities although they remain willing to cooperate and continue discussions concerning the SMED project.

3. Philippine Exporters Foundation (PEF)

The Philippine Exporters Foundation (PEF) is a new association of exporters, which was set up in January 1985 with SMED funds. Part of the funds were released in February 1985 and part in December 1985. To date, SMED funds are still being utilized in PEF operations.

The setting up of PEF appears to have been almost entirely a political decision. The rival organization, Confederation of Philippine Exporters (COPE), dates back to 1974. By the admission of both PEF and COPE there appears to have been disagreements between MTI and the leaders of COPE. As a result, PEF was set up by the Executive Order (No. 992) signed by President Marcos, ordering seven ministries (MTI, Agriculture, Natural Resources, Finance, Transportation, the Central Bank, and BOI) to cooperate in creating PEF. The Board of Trustees of PEF consist of these seven ministers, plus 14 private sector members, representing various associations of the seven priority sectors. Hence, while a private association, PEF has heavy government involvement.

At present PEF has 200 members, although the target is 1,000 members. In terms of potential members, there are at least 5,000 exporters listed by the Central Bank. In contrast COPE has about 400 members. At least 80% of PEF's members are also members of COPE.

The two organizations are virtually identical in terms of objectives, although PEF only admits exporters as members while COPE has members drawn from affiliated sectors such as insurance, shipping, brokerage, and so forth.

A review of PEF's membership shows that it is composed of the major exporters of the country, including many multinationals and large companies, although it also includes some medium-sized companies.

The objectives of the PEF are:

1. maintain continuous communications between government and the private sector
2. organize and plan activities to benefit exporters
3. provide an avenue for arbitration among exporters and importers

While PEF's major source of funds at present are the SMED funds, it expects to be self-sufficient from membership dues once it has enough members. There were also plans for PEF to be supported by a subsidy from import duties, but this apparently has not materialized.

After the change in government, PEF initiated discussions to integrate COPE with PEF. There is, in fact, already a memorandum of agreement to join the two organizations although nothing has been finalized.

PEF lists the following accomplishments:

1. One-stop export documentation center: Located at Philtrade, this center eliminates the need for exporters to go to many offices seeking the necessary permits to export. Exporters have to go to at least 3 or 4 agencies to get permits, e.g. BIR, certificate of loading into customs, inspection authorities, certificate of origin, etc. According to PEF about 100 exporters per day avail of the services of the center.
2. Tax-rebate center: Located at BOI, this center is meant to handle rebates on imported raw material components of exports. Exporters have a choice of availing of this service or not, since rebates under the center's system may or may not be lower than under the old system. Rebates under the PEF system are generally beneficial to garments and electronics exporters and so these sectors tend to be the ones availing of this service.

3. Elimination of export commodity clearances.
4. Liberalization of "distant water fishing" tax: there was formerly a tax on fishing beyond the 3-mile territorial limit because the catch was considered to be imports and hence subject to import taxes.

Benefits from these are available to all exporters whether members of PEF or not. COPE admits to having kept a low profile in the past few years because of the political environment, but claims that it had started discussions about the one-stop export documentation center in previous years. COPE also intends to be much more active given the change in government.

Support to PEF comprised the second largest allocation of SMED's funds (10% of all funds released from the loan portion). Given the apparent duplication of functions and membership between PEF and COPE as well as the composition of PEF's members, SMED's involvement in PEF needs to be evaluated. While there may be room for more than one industry association, this is probably better left to market forces to decide rather than government initiative. Furthermore the project does not seem in line with SMED's focus on SMEs.

4. Regional Sectoral Associations

As a result of SMED project financial and technical assistance, three provincially based sectoral associations were established. SMED and especially the regional SBAC staff have played a central role in the development of these associations. While each association has different requirements, the principal use of SMED funds has been to cover the initial operating expenses, the acquisition of basic office equipment, training activities, trade fair participation, and promotional publications for buyers.

In each case, the basic concept of establishing these associations as conduits for subproject assistance to the wood furniture industry, the brass and silver industry, and the handicraft industry is good. However, the very incipient institutional capacity of these associations raises several issues:

First, in these regional sectoral associations, there are differences in firm size, with the majority of firms at the cottage or micro level. The problems and technical requirements are somewhat different for the cottage relative to the small and very few medium-sized firms. Therefore, the access of the smaller firms appears more limited.

Second, there has been a lack of in-depth analysis of the needs and requirements of small producers in these industries. The most critical requirement is an assessment of the market potential of the producers in each of these cases.

Third, the activities undertaken to date which have generated the most interest have been those related to marketing activity. The access to the Manila market extended as a result of their participation in trade fairs in Ali Mall and elsewhere, as well as factory visits in Manila, resulted in concrete results in the form of increased sales. The regional producers and buyers center based in Tuguegarao generated relatively less interest than the access to the Manila market.

The sectoral association development activity is most effective when it builds on a common problem of critical concern identified by the members. The proposals for common kiln drier and input facilities for the furniture industry represent initiatives in this direction. However, the marketability of these products is a factor which should be carefully assessed, prior to extensive promotion of association project activity.

In sum, more hands-on sector specific technical expertise should be available to develop association project proposals to increase the potential for an effect on the memberships' enterprise operation.

Finally in terms of trends in association development, it is too early to assess membership growth trends as each of these associations were only established in the last two years.

B. DOMESTIC MARKET DEVELOPMENT PROGRAM

SMED has undertaken a number of projects in the area of market development.

Market Encounter Goes to Manila (MEGMA)

MEGMA is a buyers' fair, where producers from the regions have an opportunity to show their wares to buyers from department stores and other retail establishments mostly from Metro Manila. It was a direct outcome of the foreign exchange crisis in late 1983, as a result of which retailers who were dependent on imports for an estimated 60% of their merchandise were forced to consider domestically produced goods. The first Fair was held in March 1984. It was organized by a group composed of the Bureau of Domestic Trade, the Chamber of Philippine Department Stores and Retailers, the Philippine Association of Supermarkets, Inc., and NACIDA. SMED involvement started with MEGMA II when it contributed P222,000 to support the project. As a result the Executive Committee of the Fair was expanded to include SMED, the Design Center Philippines, and CITEM in the second MEGMA.

In order to upgrade the merchandise and ensure their saleability, pre-fair activities constitute the bulk of assistance to SMEs. Roughly two-thirds of the budget is spent prior to the fair to finance teams composed of a designer, a merchandiser and a member of the MEGMA secretariat, who assist producers select products that will eventually be displayed at the Fair. In the four MEGMAS thus far, 247 producers have participated, generating a total of P62.2 million in sales.

At SMED's insistence, a MEGMA Foundation was formed and a trust fund set up which will eventually make the event a self-sustaining activity.

While the MEGMA project may have strong spread effects, there is a need to examine it in the light of the objectives of the SMED project which is to develop private sector initiatives. The role of SMED in the project appears to have been solely that of a financier of a semi-governmental initiative. The major input of SMED to project design was to insist on a foundation.

Cagayan Valley Producers and Buyers Center (CVPBC)

The project objectives of the CVPBC are to help the wood furniture and gifts and housewares producers of Region II market their products, and to initiate product development activities in these sectors. The basic strategy for attaining the objectives was the establishment of a center, consisting of a 160 sq. mt. room in the CIADP building, to be a sales and display center, and to provide a venue for information exchange and product development.

The SGV Operations Review pointed out several critical factors which inhibit the success of the center. In terms of being a successful marketing operation, the target market has not been clearly identified so that strategies are not focused. The products appear to have little competitive advantage vis-a-vis other supply centers, (for example, the Pampanga furniture makers). The center is located far (about 500 km.) from its major market and no distribution facilities exist. While promotion and advertising are similarly inadequate, these presuppose the marketability of the product to begin with. Given the points raised in the SGV report and interviews with Association members, the basic viability of the project seems questionable.

Domestic Market Development and the SMED Project

Regarding MEGMA-type activity in the SMED Project, as Brown (Brown, "A Report on the Marketing Constraints for Provincial Small-Medium Entrepreneurs in the Philippines with Some Suggestions for Projects and Further Research", December 1982.) points out, marketing knowledge, perhaps even more than production technology, is highly industry and firm-specific. While on the abstract level there are similarities, market, industry and firm-specific data is required to achieve a matching between producer and buyer. The process of bridging the gap is made even more difficult in a country like the Philippine where physical distance and an island configuration separate markets.

There is no way the government can possibly gather the information base to be of extensive help to a typical small business, who does not know what he is looking for to begin with. Almost by definition SMEs lack the resources to do their own market research to find out what will sell, how to sell, and where to sell. A trading mentality prevalent among SMEs also causes great secrecy and distrust. Furthermore SMEs often lack the managerial ability to see opportunities and to capitalize on them.

Under these circumstances, the visible specifics of success stimulate replication. MEGMAs are highly specific demonstration projects. Moreover, by subsidizing the initial linkage between producers and sellers, they are able to break the vicious cycle of a poor product leading to an inability to sell and therefore no money for investment to improve the product.

The market development projects of other associations might usefully be mentioned at this point. The participation in fairs of the Baguio Silver and Brass Association and the Cagayan Valley Federation of Furniture Manufacturers, (for example, at Quezon City's Ali Mall) are example of a similar activity. Again, these seem to have been successful from the point of view of the producers concerned in that it exposed them to markets which they would not otherwise have been able to access without the financial and technical support of SMED and the SBACs. And as a result of the success of this type of venture, in at least one instance (The Baguio Silver and Brass Association) the association was strengthened both financially and because it had tangible activity to show prospective members.

Activities such as these make substantial contributions to the SMED project. In cases where the level of institutional development is low, specific activities with visible and rapid signs of success are important in spurring institutional development. On a more general plane, such projects have strong demonstration effects, which are important in encouraging changes in attitudes to risk-taking and to change in general which is an important part of assistance to SMEs.

There is also a need to reexamine SMED's involvement in MEGMA from the point of view of the project's ultimate aim of institutional development. The contribution to MEGMA was a substantial 6.2% of SMED's total net obligated funds. On the other hand, SMED appears to have contributed little to the project design although it was instrumental in the setting up of a MEGMA Foundation. It is desirable to integrate SMED's activities in the area of domestic market development more fully with the other elements of the project, such as having a more solid link with regional associations and perhaps other SMED activities in the regions, say, a link to SBIs training focus. Given the present capabilities of SMEs, domestic market development, more than export promotion, is a key area in SME assistance and one with seemingly large scope for institutional development.

On the other hand, projects such as the Cagayan Valley Producers and Buyers Center seem to lack basic project feasibility.

This points out a major flaw in SMED's project identification and design and the need for a more analytical approach to the whole question of subprojects and demonstration activities, given the basic objectives of the project as a whole.

C. TRAINING RELATED PROGRAM

The training programs supported by the SMED project consist of small business institutes and regional training committees. The development of small business institutes is the most significant training initiative in terms of funding and subproject activity. As of June 1986, SMED disbursed a total 2,627,000 pesos for training related-subproject activities. Eighty-nine percent of the total amount disbursed was released to small business institutes in each of the five subproject regions. The balance supported the development of a Regional Training Committee in Region II (Tuguegarao) as well as an incipient one in Region VI (Bicol).

Small Business Institutes

The objective of SMED in developing the SBI program was to establish training institutes in the project regions, which will offer management and non-technical courses for small entrepreneurs. SMED conceives of these SBIs as joint ventures with private organizations, in which the lead partner is an established university or college. The aim is to incorporate into the advisory board other private entities, including sectoral associations, civic clubs, industry chambers or PVOs, or well-known individuals representing the private sector in their personal capacity.

A total of eight small business institutes have received funding, and been inaugurated or affiliated to the SMED, since the initiation of the project; three in 1984 and five in 1985. A ninth has yet to receive SMED funding, but they have already undertaken project activity based on their memorandum of agreement with MTI. These SBIs include:

Bicol Small Business Institute, Aquinas University,
Legaspi City;

Central Mindanao Small Business Institute, Notre Dame
University, Cotabato City;

Extension Institute for Small Scale Industries, St. Louis
University, Baguio City;

Cagayan Valley Small Business Institute, Cagayan College of
Tuguegarao, Tuguegarao;

Western Visayas Small Business Institute, Central
Philippines University, Iloilo City;

Western Visayas Small Business Institute, - Negros Economic Development Foundation, Bacolod City;

Bicol Small Business Institute, University of Northeastern Philippines, Iriga City;

Ilocandia Small Business Institute, Luzon College, Dagupan;

Ilocandia Small Business Institute, St. Louis University, San Fernando.

* Note: Project Activity has taken place, but SMED funds have still not been released to the SBI.

The bulk of this financing has been for basic infrastructure and equipment; training activities; and modest honoraria for non-governmental trainers.

The executive director and in some cases, the entire board, of each of these small business institutes were interviewed by evaluation team members in field visits to the five regions. In addition, operational reviews of a number of SBIs were carried out by SGV and by Dr. Frank Scott, an IESC consultant volunteer.

Our assessment of these SBIs confirms many of the conclusions of these previous reports. The report by the IESC consultant stated that, "the SBI projects which have exhibited the most progress have the following similarities":

1. a mature, business-management oriented director who is and has been active in civic organizations;
2. close collaboration with a progressive active college or university;
3. a Board of Directors well selected for their leadership and community influence;
4. staffing (training and research) selected by the SBI Director, that has experience and is resourceful;
5. a strong, supportive SBAC; and
6. available and adequate physical facilities."

The capability of each of the SBIs to service small business varies considerably. Four SBIs had initiated no or very limited training activity since their establishment. These included the Cagayan Valley SBI; the Ilocandia SBI in Dagupan; the Western Visayas SBI - NEDF; the Bicol SBI in Iriga City. Each of these SBIs lacked an integral link to established university with active extension activities; and lacked adequately trained staffing capacity.

The four SBIs, which were able to significantly expand their training and consultancy activity, were SBIs with the above cited characteristics. In addition, these SBIs were attached to a university with a strong interest in community extension activities and with the will to cover part or all of the salary costs of the technical staff of the SBI.

One constraint mentioned consistently by all SBI executive directors was the considerable delay in the receipt of funds under the SMED project. This substantially undermined the level of training services, especially in those cases in which a university was unable to advance the SBI funds in anticipation of future receipt of the SMED project support. In addition, the Ministry requirement that funds be authorized only for a given calendar year, and disbursed on a quarterly basis, was a destabilizing factor in the long term planning of these institutions.

Seven of the eight SBI executive directors interviewed characterized the services of SMED as "poor" to "moderate", principally because of (a) the lack of defined objectives; (b) the absence of adequate channels of communication; (c) confusion over the terms of agreements, especially the issues of private sector counterpart and staff compensation. One particular problem was the lack of authority of the staff making periodic visits to the subproject sites. The consistent reply of these SMED officials in response to queries was "I will have to refer to head office."

The self-sustainability of the SBIs is questionable in the long term. The revenues received from training activities, which is the principal source of income generation, were insufficient to build up adequate trust funds to cover long-term operational expenses. Counterpart contributions from the private sector were anticipated in the memorandums of agreement with the Ministry of Trade and Industry. However, these have not been forthcoming except from the universities themselves. In most cases, the credibility of these SBIs have to be developed further before the institution is in a better position to solicit significant private sector counterpart funding.

The future development of the SBI program is contingent upon several factors:

1. the provision of technical support in the area of training methodologies, specifically case study, clinic and conference/discussion approaches;

2. the provision of technical support to develop programmatic activity and financial systems with an emphasis on developing an improved revenue generating capacity;
3. the clarification of the compensation requirements for the technical staff of these SBIs to ensure the long-term viability of the SBI and a well-defined and supportive relationship with the affiliated educational institution;
4. the further definition of the client base of the SBIs given the diversity of the beneficiaries currently being served;
5. the provision of support for limited research and consultancy services by the SBI, e.g. preparation of feasibility studies;
6. an assessment of the market absorption capacity of SBIs, in those regions in which more than one SBI is programmed or established, as well as the potential for multi-locational training established by SBIs.

Regional Training Committee

This subproject activity was initiated on a pilot basis in Region II (Tuguegarao), and is anticipated to be implemented in Region XII (Cotabato) in the near future. The objective of the Regional Training Committee is to improve the coordination and conduct of training programs in a given region, given the multiplicity of training institutions. For example in Tuguegarao, representatives of the National Cottage Industries Development Authority (NACIDA), the Cagayan Integrated Agricultural Development Project (CIADP), the Small Business Advisory Center (SBAC) and the National Manpower and Youth Council (NMYC) agreed to form the Cagayan Valley Regional Training Committee.

Though the RTC in Region II took substantial time to get underway, the concept underlying these pilot RTCs is sound and should continue to be supported.

D. TECHNICAL ASSISTANCE PROGRAM

SMED has undertaken a number of programs which provide technical assistance to SME producers.

Product Specialists Program (CITEM)

The Product Specialists Program is a CITEM program in which product specialists from other countries are brought to the Philippines to give hands-on advice to producers. It is primarily geared to preparing producers for the export market, and hence is necessarily geared towards reasonably large SMEs.

Financing for this program appears to have been drawn from a variety of sources aside from SMED, for example, from the third BSMI/World Bank Loan. SMED financed three specialists in 1984-1985 which was the largest single allocation from the project's loan proceeds accounting for 12% of the net obligated funds and 15.4% of all loan funds released. We were not able to get other details on the program itself (aside from SMED's specific contribution) due to the unavailability of the project officer at CITEM.

Accent on Design (AOD)

AOD's objectives are to provide a source of locally-inspired design ideas, assist in upgrading the quality of design teaching and to disseminate design information to domestic producers. It is aimed at improving locally produced goods, initially for Metro Manila and regional markets, and potentially for the export markets.

The particular avenue of assistance is providing advice on design, color, etc. to producers who will participate in Market Encounters and fairs in Manila. It operates in the five SMED regions, working with those who have never gone into exports and have had no extensive experience in market fairs. While assistance is provided on the firm-level, contacts are made through producers' organizations.

Given the type of producers they work with, DCP does not expect this type of activity to become self-sustaining. AOD is the only project where DCP works with this level of manufacturer.

Local Study Missions

In this activity SMED financed two groups of producers on a study tour of relevant production facilities in Metro Manila. The tours were scheduled to coincide with a buyers' fair, thus giving the producers an opportunity to see the market potential of their type of products. The initial tour was for 25 wood manufacturers, scheduled to coincide with the Furniture and Furnishings Week Fair. The second was for the Cagayan Valley Furniture Producer Chamber and Cagayan Valley Federation of Gifts and Housewares Producers. The total amount spent on the two missions was P26,800. This exposure to Manila-based operations had a good demonstration effect on regionally-based manufacturers.

Project Assist

Project Assist is the umbrella name for utilizing resources offered by various volunteer groups, namely the CESO and IESC.

The Canadian Executive Service Organization (CESO) sent 3 volunteers to work with SMED in the areas of processed food, metal and furniture in late 1985 and early 1986. The objective of the visits was to talk to various groups in a specific industry, identify problems and make recommendations. Apparently, however, not enough groundwork was done prior to the arrival of the volunteers in terms of a well thought out agenda, places to visit, information to groups in the regions as to what the program was all about and what it was supposed to accomplish, etc. In the end, aside from talking to groups, volunteers also worked with individual SMEs.

As a result, while the volunteers felt that some contribution had been made, there was a certain level of frustration and disillusionment. A fourth volunteer was originally scheduled (in handicrafts) but his visit has been suspended pending the submission by SMED of a definite, well laid out program acceptable to CESO.

The International Executives Service Corps (IESC) sent three volunteers to work in the areas of wood, Small Business Institutes and the Philippine Volunteers Foundation. The experiences of the volunteers were fairly positive. There were, however, problems again in the administration of the project. Not enough preparation and planning had been done prior to the arrival of the volunteers, including briefing prospective clients on what the project was about, what counterparts were expected of the clients, a clear agenda of visits and so forth. For example, the original terms of reference of the volunteer on wood was to assist SMEs in Region II, but he was eventually taken to other

regions as well. While this may have maximized his contribution, the fact that it was not thought of initially suggests less than thorough preparation for his visit.

Reimbursements were also a problem. The full payment relating to the volunteer for wood was made over a year later, and that for the volunteer to SBIs in July 1985 has not been fully paid for to date. The experience of the volunteer to work with PVF was much more positive, largely because the assistance was rendered in Manila, to a group of professionals, and IESC arranged to receive reimbursement directly from USAID.

Philippine Volunteers Foundation (PVF)

PVF is a local counterpart of IESC and CESO. When operational, it will field volunteer consultants to provide professional and technical assistance to SMEs. PVF was organized in 1985, and it availed of the services of an IESC consultant to assist in setting up the foundation and its systems. PVF is still building up its skills bank of consultants and seeking clients for its services. To date, no volunteers have been sent out, although there are a number of inquiries for assistance.

Other Technical Assistance Projects

There are a number of other projects in the area of technical assistance to SMEs which are currently in the works. For example, SMED is working on setting up a foundation similar to PVF in the area of technical assistance, the Technology-in-Action Foundation (TIAF), working with Women in Finance and Entrepreneurship (WIFE) in setting up a chapter in the regions, and setting up a foundation for Junior Volunteers.

Technical Assistance in the SMED Project

The above activities can be divided into two major types: (a) technical assistance by or through a government agency (or with very major government inputs), and (b) assistance to private groups which will eventually themselves provide technical assistance. In the former, we can class the Product Specialists Program of CITEM, the Accent on Design Project of DCP and the use of volunteer groups like IESC and CESO and the local study missions organized by SMED itself for its clients. In the latter, we can classify the assistance to PVF and efforts in TIAF and WIFE.

While the former groups of activities may involve working with associations, the involvement of associations is primarily as a beneficiary of services. The point here is that the primary purpose of the SMED project is so that "private sector institutions, primarily PCCI and industry and trade associations, have improved capacity to directly provide and act as conduits for the provision of extension services and demonstration activities to SMEs". As mentioned earlier, the CITEM project was the largest single beneficiary of SMED funds. Given the SMED objectives, there should perhaps be less emphasis on assistance directly arranged for by the government, and more, or at least equal, attention and funds devoted to activities that directly answer the project's objectives.

On the other hand, it should be recognized that projects like the Product Specialists Program and Accent on Design have indeed assisted the SMEs who were fortunate enough to avail of their services. This assistance, aside from the benefits to the SMEs concerned (and to the country for the foreign exchange that they presumably will earn at some future point in time), is also useful from the point of view of stimulating demand for similar types of assistance.

Wallender, in the paper earlier referred to, points out that attitudes regarding technical assistance are a major constraint to SME activity in the area of technology adaptation and change. Partly this is due to the weak industry expertise of government extension service for SMEs. Partly this is also due to the undeveloped management capabilities of SMEs, who lack organizational and analytical ability to use information to identify opportunities and exploit them. Another equally important factor is that SMEs have very poor capacity to bear risks (even if only to produce a prototype product or to experiment with new designs) because their level of resources is so low that the effect of failure would be quite serious.

As in the case of the domestic market development activities cited earlier, under these circumstances, highly specific demonstration projects can be very effective in stimulating innovation and replication, not only for the client himself but for his community as well. It is the latter where spread effects of such projects can be quite powerful. In support of this, the observation of DCP is that clinics work only when success is already demonstrated with individual firms. SMEs appreciate assistance when effects are highly visible and directly attributable to such assistance.

Hence, while there is no doubt that working with groups is more efficient, the difference in degree of effectiveness at this point (given the stage of SME development) may be worth the extra cost of individual training. SMEs may not be ready for group training.

Local study missions widen the horizons of rural SMEs. AOD exposes them to design standards which are on an international, or at least urban, level. Volunteers and product specialists demonstrate, in a very specific fashion how to improve production, manage records and what not, with a level of expertise that a generalist, like SBAC or academic people, cannot hope to have.

However, the experience of some volunteers (such as that of wood experts visiting the Cagayan Valley wood producers), indicated that the level of technology in the regions may be such that the most relevant technical assistance would be that from local experts. This, in fact, was cited as being a major factor in encouraging the PVF. Given this, and apart from the export objectives of the Ministry, it may be more cost effective for SMED to make use of (1) local experts, and (2) voluntary groups such as IESC, rather than the expensive CITEM Product Specialist-type of technical assistance.

Junior volunteers help SMEs in a more indirect fashion. They are more directly helpful to the SBI as well as to themselves. SBIs obtain some assistance which presumably enables them to better fulfill their functions, while the student gets first hand exposure to entrepreneurship and small business, hopefully encouraging him to join the ranks of SMEs.

In terms of the administration of the project, problems seem to have arisen where SMED itself arranged for the technical assistance for CESO and IESC. This points to the need for closer monitoring and communications between SMED and SBAC staff who implement the project. Miscommunication is very easy. People in the region may be unfamiliar with organizations and exactly what is expected of them in terms of a well thought out program. An unfortunate trait in rural areas is lack of precision which necessitates much more hands-on involvement of SMED staff with the projects than has heretofore been done.

Regarding the institutional development work being done with WIFE and TIAF, there seem to be problems in getting the projects off the ground. Going back again to the basic objective of the project which is to encourage private sector participation in the provision of services, such as extension services to SMEs, SMED might consider taking a more active role in the development of the institution concerned.

In the case of WIFE, for example, the project proponents very clearly felt that assistance was inadequate. SMED assistance apparently consisted of setting up one meeting in Legaspi between WIFE and a potential chapter in the region. In Dagupan SMED "put them (WIFE) in touch with two potential groups". Now both SMED and WIFE are apparently waiting for something to happen, but not taking active steps to make things happen. The question is how much initiative the private sector and the public sector should contribute. While the private group must obviously show initiative, the SMED project is precisely all about helping private groups to grow. Hence more active assistance from SMED may be called for.

In the case of TIAF market it is not obvious that a separate organization needs to be formed at this point, although SMED feels that the is big enough. As pointed out by TIAF's President, there are at least three other foundations in the area providing technical assistance to SMEs, namely: PVF, the PCCI Foundation for Economic Development and the SGV Foundation. Given the incipient nature of voluntary assistance in the Philippines and the absorptive capacity of SMEs for this type of service, there may not be a need for a separate volunteer group specifically for technical assistance at this time.

On the same topic of appropriate roles and activities SMED should undertake, activities like the Local Study Missions appear to be of assistance in getting SMEs to see opportunities and what they can do to exploit them. Yet the role of SMED in this activity appears to be an entirely passive one. If this activity is found effective, it might be "institutionalized" and made a regular part of the services arranged by, for example, SBIs.

VI MICRO ENTERPRISE DEVELOPMENT COMPONENT (MEDC)

In the original project paper, this component was anticipated to develop, primarily in Filipino private voluntary organizations (PVOs), increased capacity to assist micro enterprises located outside Metro Manila through credit programs, marketing assistance and management training.

When this project is completed:

1. PVOs capable of assisting micro enterprises with credit, marketing and management training programs will be active outside of Metro Manila.
2. Training programs will be developed to upgrade basic management skills for micro enterprises.
3. Sustainable credit programs will be established for micro enterprises.
4. Means of providing relevant marketing assistance for micro enterprises will be developed.

To fulfill these objectives, it was projected that:

1. SMED would provide financing, primarily through PVOs, to assist micro enterprises meet credit needs and provide extension services in marketing and management training. It was anticipated that the Micro Industries Development Program (MIDP) unit would handle direct management of PVO programs under the micro enterprises component.

Annual action plans would be developed with the assistance of MTI's MIDP to serve as a basis for execution of this activity.

2. Technical assistance would be extended to PVOs, mainly by MIDP and the general contractor, to improve their extension capability.

3. MIDP will solicit proposals from PVOs for review by the MIDP, the Management Implementation Secretariat and the General Contractor. PVOs will enter into grant agreements with MTI.

A condition precedent to disbursement of this component is the submission of a detailed implementation Plan, including financial plans/ procedures and a standard agreement between MTI and PVOs for AID approval.

4. A monitoring system will be developed.

An Overview of the Implementation of the Micro Enterprise Development Component

The Ministry of Trade and Industry's Micro Industries Development unit was initially responsible for the implementation of the micro enterprise development component of the SMED project. This unit, incorporated under the Bureau of Small and Medium Industries (BSMI), had considerable experience in providing direct technical assistance to micro enterprises in the Metro Manila area. For MIDP, the SMED project represented an opportunity to develop the methodology of utilizing the established expertise of private voluntary organizations (PVOs) in regions outside of Metro Manila to respond to the needs of micro enterprises.

The concept underlying this component was that PVOs are the most appropriate conduits to reach microenterprises in rural areas. However, PVOs tend to lack sufficient business expertise to manage and operate microenterprise credit and technical assistance programs. Therefore, training of PVO staff and technical assistance in the development of credit systems serving microenterprises, would be required.

MIDP developed a detailed implementation plan for the Micro-Enterprise Component of the SMED project, which was submitted to and approved by AID. Approval of this plan was a condition precedent to the disbursement of funds for this component. This first implementation plan, though still a planning document, presented a coherent program for assisting PVOs. Agreements in principle had been made with a local financial institution to manage the Micro Enterprise Development Fund, and preliminary discussions were underway concerning the specifics of the credit program.

In addition, MIDP developed a proposal and solicited bids for a General Contractor to provide technical assistance in the design and implementation of the micro enterprise component.

At the same time, MIDP carried out a series of implementation workshops to promote the program to private voluntary organizations in the five SMED regions and to describe the anticipated project activity under the micro enterprise component. The steps included the (a) the identification of PVO cooperators; (b) accreditation of PVOs; (c) MIDP institutional development assistance; (d) PVO staff and client training; (e) PVO financial support program. MIDP also carried out a course on promoting micro enterprise in rural areas with SMED funds.

Six months after the development of this implementation plan, there emerged differing approaches on the part of the MIDP unit and SMED over the specific mechanisms for implementation. The SMED office was concerned about the heavy workload of the MIDP unit and was not in agreement with the first Implementation Plan developed by MIDP. For example, SMED's preference was to subcontract training services from UP-ISSI for these PVO beneficiaries, while the MIDP had planned to carry out this training directly. Therefore, negotiations were initiated between SMED, MIDP and UP-ISSI.

The resignation of the head of the MIDP unit, who had developed the micro enterprise component from its initiation seriously stalled progress on the implementation plan. To respond to this shortfall, the SMED executive director developed a microenterprise unit within the SMED office with its own designated personnel.

Subsequently, the efforts to obtain the services of a General Contractor for the micro enterprise component also came to a halt. In addition, negotiations with UP-ISSI over the proposed training project ended in stalemate, and the training activity was never carried out by UP-ISSI. With regard to the MEDC lending program, there was a Ministry decision to change the previously identified counterpart financial institution, which would serve as the repository of the Micro Enterprise Development Fund. This meant that a relationship with a new financial counterpart had to be developed. In addition, the proposed mechanism for the lending program proved unworkable. Lending funds at six percent to PVOs for a microenterprise development program was not attractive to PVOs, given the potential availability of grant funds from other sources.

It is important to emphasize that from the very beginning, a continuing constraint to implementation of the micro enterprise development component lending program or any credit activity was AID's concern about the specifics of the credit scheme. Before AID can enter into a commitment to fund a credit program, AID requires a detailed description of all aspects of the system, including lending procedures, procedures for the selection of borrowers, parameters for uses of money by the ultimate borrowers, approvals required (e.g. what level of transaction would require MTI approval), terms of the loans, including interest rate, maximum amount per subloan, provisions for repayment, location and proposed use of loan repayments.

In the early phase, significant effort was made to provide detailed descriptions of the proposed credit program. However, subsequently, several proposals developed by SMED neglected to provide sufficient documentation to fully respond to AID requirements with regard to credit programs. This has slowed the implementation of any credit activity, funded by the SMED project.

SMED staff have made substantial efforts to develop specific proposals to implement a number of project activities anticipated in the initial implementation plan, such as an association of PVOs. The SMED micro enterprise unit initiated the development of a new set of subproject proposals, including the Master PVO program; the National Information Secretariat for Income Generating Projects; the Micro Enterprise Development Training Center; the Island Economies Program; the Negros Occidental Development Livelihood Projects; and Project Harvest. (Project Harvest appears to have been included as a micro enterprise project at a later date.)

The majority of these activities remain in the project planning stage. Funds have only recently been disbursed for four of the seven regional association of PVOs, while the remaining projects have not yet received any funding as of June 30, 1986, with the exception of Project Harvest. (See Appendix No. 1)

Project Harvest

Project Harvest, which received 125,000 pesos from SMED funds, has initiated training activity. The objectives of Project Harvest were to (a) preserve vanishing ethnic skills by putting them to optimal economic use; (b) to match skills and talents with locally available raw materials for the production of marketable items; (c) to foster coordination among community members to obtain specific assistance; (d) to help group engage in self-sustaining undertakings and generate more activity in the future.

To date, two community groups, the Annafunan and Samague groups, have been organized, and a total of at least four groups have received training in weaving and prototyping. Based on a visit to a training meeting and interviews with project trainers, the key strength of the training program in basketry is the integration of buyers, who are in a position to subcontract the trainees, into the training process. Therefore, there is an effort to bring together the community as producers together with potential buyers from the very beginning.

The SGV operations review of Project Harvest identified a critical problem in project implementation: "What remains to be seen ... is if the agencies tapped by SMED can deliver the expected services and if a private industry group can be relied on to take the lead in sustaining the efforts of the government." The original proposal lacked clarity as to the functions of the project proponents and the mechanism for self sustainability.

An ongoing assumption of the project was that the Cagayan Valley Federation of Gifts and Housewares Producers, as the private industry group, would sustain the project initiative. However, interviews with this federation suggested the inoperability of such an approach, given its lack of experience in marketing extension services.

Concept Project Proposals for Micro Enterprise Development

Apart from Project Harvest, the micro enterprise unit developed a series of national and regional project concept proposals. A number of these proposals were submitted to AID for approval in principle in November/December 1985; however, they were placed on hold until the evaluation anticipated for December 1985 could be carried out.

Discussion with one potential national PVO project collaborator, Philippine Business for Social Progress (PBSP), indicated that the objectives of the project proposal for a National Information Secretariat as presented by the SMED staff was unclear. In the words of PBSP's executive director, "the design was too loose." PBSP presented a proposal to SMED, which indicated that the activities proposed were not what SMED wanted to fund. PBSP decided not to encourage any further collaboration with SMED. AID's Private Voluntary Organization office is currently developing an information resource center for PVO's independent of the SMED project.

With regard to the subproject activity concerning the Association of Private Voluntary Organizations, regional PVO collaborators interviewed expressed frustration with SMED as a partner. The three PVO association heads interviewed stated that the services provided to date by SMED responded "poorly" to the needs of their constituents. The institutions concerned include the Himakas Sang Pribadong Organisasyon, Iloilo City; the Community Extension Service of Notre Dame University in Cotabato City; NOPVOFI, Bacolod City.

SMED and SBAC Staff did provide extensive technical assistance to these associations to develop their project proposals. These proposals were, however, considered by AID to be too formative to be approved for funding. Therefore, MTI decided to extend its own resources for institutional development. The delay in the release of GOP funds principally because of the snap elections and the revolution was a critical factor influencing these associations' opinion of SMED. Discussions had been underway with each of these associations of PVOs since the first promotional workshops carried out by MIDP in 1984.

The issue of concern is that the SMED project raised expectations about the potential of the micro enterprise component to respond to the needs of regionally based PVOs. These expectations have yet to be responded to.

With the change in subproject proposals presented by the SMED staff, AID was increasingly interested in the presentation of a revised plan of implementation of the micro enterprise component. While a draft of this plan was prepared by SMED staff, the executive director did not authorize the final release of this document. In addition, SMED contracted the services of a consultant to prepare a strategy for micro enterprise development but the final product was not acceptable to the SMED Office. The approach adopted by the SMED office was to present a series of proposals together concerning the Micro Enterprise Development Component in one letter requesting approval in principle.

A Summary of the Issues

The principal issues raised by the progress of the Micro Enterprise Development component were:

1. the absence of clearly defined objectives and of the roles of the project collaborators in proposals developed;

2. the lack of a mutually agreed upon criteria for subproject approval (both by MTI and AID);
3. the lack of a coherent, implementable plan of action, as the project progressed;
4. the complex requirements of the AID policy for credit and programs;
5. the high turnover of staf responsible for the MEDC program;
6. the complexity of implementing micro enterprise project by a government ministry;
7. the severe institutional development needs of PVOs;
8. the high expectations of PVO collaborators assisted by the SMED project.

VII EMPLOYMENT AND ENTERPRISE POLICY RESEARCH COMPONENT (EPR)

This component was envisioned to develop the capacity to obtain better information on SMEs and to facilitate effective policy dialogue between the public and private sectors about issues affecting SME growth and productivity.

When the project was completed, it was anticipated that:

1. The GOP and private sector would have an effective system to gather accurate and relevant information on SMEs and the capacity to do better policy analysis on SMEs.
2. There would be an ongoing effective policy dialogue between private and public sectors regarding government policies and programs affecting SMEs.
3. Public and private sectors would have a better understanding of the factors that affect the growth and productivity of SMEs.

In order to achieve this, SMED would finance the following:

1. commissioned studies to
 - a. catalogue existing studies and research and suggest additional research;
 - b. survey existing information on SME associations;
 - c. undertake research to determine the impact of specific policies on SMEs, e.g. impact on employment and enterprise of income related policies (such as agricultural pricing policies), policies on scale and location (such as credit subsidies, unequal import duties, etc.) and policies related to capital intensity of enterprises.
2. Research to study employment and enterprise issues to be identified in the course of implementation. Research will be applied and problem solving, and will feed into and be supportive of other two SMED components.

3. Information dissemination and workshops to present and discuss research with relevant policy makers.
4. Training to improve the capacity of MTI to undertake policy analysis and develop organizational and diagnostic skills relating to SME development.

Research Undertaken

The entire SMED effort in research was conditioned by the bias in the Ministry at that time against research. Hence the only major outlay of SMED in this areas was in the training of GOP staff.

There were two basic activities undertaken: short term courses in market and consumer research, and scholarships for MTI staff to obtain MBAs.

Under the former, four 2-day seminars were held in Cebu, Iloilo, Cagayan de Oro and Manila. They were attended by a total of 137 participants, of whom 90 were staff members of MTI (BSMI-SBAC, Bureau of Domestic Trade, Product Standards Agency, and NACIDA), and the rest SME entrepreneurs.

In 1984-85, 18 staff members of BSMI-SBAC were given scholarships to obtain masters degrees at the Asian Institute of Management.

The overall plan called for a total of \$407,000 to be spent over 3 years to train 209 people in various areas; the total used to date is approximately \$50,052. No activities are planned for 1986; furthermore there appear to be funds available from other sources within MTI for the same activity. (See Appendix No. 1)

Other research efforts were the SMED Information Series and a strategic option paper for micro-industries.

The SMED Information Series was a SMED project, but for a variety of reasons, no work was done on this at SMED. The project was subsequently turned over to BSMI. Hence, this project appears on the accomplishment reports of both agencies, although all the work was done at BSMI. The series was to be composed of about 12 volumes, of which only two have been completed: one on sources of financial assistance to micro-industries and another on sources of technical assistance to micro-industries.

Regarding the study on strategic options for micro-industries, AIM was contracted to do the research. A number of problems occurred, largely having to do with the reluctance of the contractor to do the research in the absence of a clearly defined payment schedule. While there are funds obligated for the project, no payments have been made to date. The draft has been submitted to SMED but is inadequate for the purpose for which it was commissioned.

There are the beginnings of other research work. A baseline study of associations was bidden out in mid-1984 but never undertaken (funds were subsequently used for the SGV operations review). The concept of the General Contractor was also reworked into a research effort to identify subprojects in the areas of wood and gifts and housewares by reviewing existing studies, identifying critical points in the consolidation of small producers' output for exports, providing solutions to technological constraints and identifying entry points for gifts and housewares in the appropriate distribution channels.

Role of Research in the SMED Project

The bias of the Ministry against research during the Phase I of the SMED project was unfortunate in that without research SMED did not have the data on which to base project identification, design and evaluation. The project also called for both a package for services and the institutions to deliver them, which again presupposed research especially as to the capability of existing institutions, needs of SMEs and so forth.

Research was even more important because of SMED's design as a process project. Hence project development would have to be guided by continuous input from information sources established for this purpose. Those include monitoring/evaluation services (aimed at assessing performance) and a comprehensive research program to serve as a planning source.

As pointed out by Robert Hackenberg (Hackenberg, Robert A. "A Proposed Research Agenda for the Small and Medium Enterprise Development (SMED) Project." June 14, 1983.) in a paper on the proposed research agenda for the SMED Project, research activities must be initiated early in the project so that results may guide choices among institutional channels, services and target industries. Hence commissioned studies which are national in scope were assumed early in the project. Subsequent to this other research grants in later years (1985 and beyond) could take the results of earlier broad-gauged research to focus on specific issues.

It may be pointed out that there are many research components already being undertaken as part of individual projects which could usefully be put together by SMED and used as the basis for policy and project design. A number of SBIs are undertaking surveys in their own area, such as the Cotabato SBI's study of wage policies in the Cotabato area and the more general business survey of the Ilocandia SBI. The wage surveys are particularly interesting in that this is the sort of local issues that national organizations would have difficulty doing, but which have important implications on national wage policies. What is needed, however, are inputs from SMED (as the common denominator) to ensure comparability of data and a broad national perspective. This will also directly feed into the policy research specifically mentioned in the project paper and allow SMED to make a direct contribution to MTI policy-making in general.

Along this line, another important area where SMED might usefully go into would be technical assistance to SBIs in terms of methodology for research, and an overall research agenda which will maximize the contribution of each institute. A useful research project which has economies of scale will also be the development of a common curriculum as well as training materials which could be used by SBIs. The EDCEL project by a consortium of educational institutions led by UP-ISSI is along this line and SMED might investigate the idea of collaboration on this project.

The PCHI baseline survey of raw materials will likewise provide basic data, as will the integrated information system project of PCCI.

There is little doubt that much could have been gained in the research component of SMED, both for the implementation of the project and for SMED to make a more general contribution to MTI policy-making as well.

VIII FINDINGS AND CONCLUSIONS

ECONOMIC AND POLITICAL CONTEXT

Project implementation was severely affected by the adverse economic and political climate during all of Phase I. The most critical factor was the impact on the ministry budget, as well as the declining financial viability and access to credit of SMEs.

MAJOR HYPOTHESIS AND RELATIONSHIPS BETWEEN INPUTS, OUTPUTS AND PURPOSE

The assumption that private sector associations can be effective conduits for services to SMEs remains valid. But whether this assumption is valid within the Philippine context cannot be judged at this point in the project implementation.

The assumption was that the private sector would play a principal role in the implementation of the project. However, the implementation process revealed that the private sector did not have the capacity to assume this major role immediately, and would require substantial institutional development before it could do so.

The capacity of private sector institutions for regional outreach was overestimated. Also, overestimated was the Ministry's interest in delegating substantive project implementation responsibility to the private sector institutions.

The project assumed extensive collaboration between the public and private sectors, without prior working experience with such a collaboration.

The SMED project assumed that an industry association approach could be implemented in the poorer regions of the country. However, since the linkages to private sector institutions were necessarily weaker in the poorer regions of the country, this association approach proved to be difficult to implement.

The selection of two sectors of production, wooden furniture and handicrafts, created distortions in the regions of subproject implementation. For example, it has not been possible to stimulate sectoral association activity in furniture in those regions with a limited market for furniture.

The major hypothesis that strengthening associations to be more effective channels to SMEs and providing services needed to improve SMEs will result in increased demand for these services, and in turn lead to growth and employment generation is valid.

However, the experience to date suggests that providing firm-specific technical and marketing assistance may be more successful in increasing demand for extension services in the short term. Strengthening associations to increase demand is a more long-term proposition.

The hypothesis that the generation of rural employment was a reasonable outcome of the project activity was overly optimistic. Several recent evaluations of SME projects have indicated that job strengthening, rather than employment generation is often a more realistic goal. An employment and growth impact could only be assessed following Phase II, in which more extensive provision of services are anticipated. (Blaney, R. and Otero, M.)

PROJECT MANAGEMENT, DESIGN AND IMPLEMENTATION

The decision not to do research and baseline analysis undermined the planning capacity of the SMED project.

Establishing a new institutional unit, which is not fully incorporated into a "line agency" with a regional staff capacity, can undermine the unit's effectiveness in a bureaucracy and in monitoring project activity in the field.

MTI, both at the level of the SMED and SBAC staff, are not adequately trained to prepare subproject proposals of the type that AID required.

The absence of technical support in the form of a general contractor increased the management responsibilities of SMED as well as deprived them of technical support in dealing with AID.

Subproject funding decisions cannot be made collaboratively by two national institutions, such as PCCI and MTI, which do not have an established working relationship. One institution has to be responsible for the final decision, while the other institution can only realistically serve in an advisory, policy, or program planning capacity.

The "rolling design" methodology is difficult to implement in projects with a complex management structure, which anticipate the involvement and decision-making authority of several different institutions.

The lack of clearly defined policies and criteria for subproject proposals at the beginning of the project delayed subproject implementation and undermined constructive collaboration with regional project proponents.

The government and AID regulations regarding commodity procuments, disbursements and what activities can be funded, among others factors, were a significant obstacles to implementation. The rules and regulations of the government and AID were not sufficiently known to all parties.

INSTITUTION DEVELOPMENT COMPONENT

Chamber Development

Institution building of industrial chambers and sectoral institutions is a long term process. The institutional development process of these organizations is just getting underway.

Philippine Chamber of Commerce and Industry

From 1982 to 1986 there was significant PCCI chamber development; membership increased dramatically; staffing was upgraded; and training and dialogue activity grew substantially. The information flow and linkages between the local chambers and PCCI have improved to a moderate extent.

The SMED program has been a fundamental factor influencing these factors; however, an equally critical factor in provincial chamber development has been the CIPE program which provided the chambers with secretariat services.

Chamber to chamber assistance appeared to be a more effective channel, than government to chamber support.

Sectoral Associations

CFIP has increased its membership, but its regional linkages have been somewhat undermined by SMED's autonomous action in developing regional sectoral associations. The latter can also be said about PCHI's regional linkages. There has been insufficient coordination between the regional outreach of national associations and the development of regional sectoral associations.

In the case of PEF, its organization appears to duplicate the functions and membership of an already existing association. Furthermore the size of many companies in PEF is beyond the size of firms targetted in the SMED Project.

The process of regional outreach by national sectoral associations tends to be a long term process as they represent predominantly Manila-based firms.

Regional sectoral associations have experienced only incipient institutional development as all the SMED assisted associations have been formed in the last two years.

For regional sectoral associations firm-specific marketing assistance has generated the most interest, and, to a lesser extent, common service facilities.

Sectoral industry associations are valid conduits for the provision of services, despite their incipient development in the first phase of the project. The services extended through associations which appear most effective are market access services, product-specific technical training and common facility services.

DOMESTIC MARKET DEVELOPMENT AND TECHNICAL ASSISTANCE

The methodology of firm-specific marketing and technical assistance were effective in assisting SMEs directly and providing important demonstration effects.

Though not always directly contributing to association development, this approach appears to be a factor in increasing the demand for extension services.

TRAINING RELATED PROGRAMS

The Small Business Institutes, a program not directly supportive of association development, is a valuable training approach. It is most effective when utilizing institutions attached to universities with an interest in developing extension services and a commitment to covering partial staffing costs.

Technical support to the SBIs in the form of training methodologies and institutional development was insufficient given their requirements.

There has not been sufficient coordination among regional training institutions. However, a start has been made by forming a pilot Regional Training Committee.

MICRO ENTERPRISE DEVELOPMENT COMPONENT

MTI's experience with PVOs and micro enterprise development is currently somewhat limited. PVOs have demonstrated a reluctance to work with SMED, given a lack of definition of project objectives.

The SMED project lacks a coherent strategy for the micro enterprise development component. At the start of the project there was the basis for an implementable strategy; however, this was never developed.

Subproject proposals in support of micro enterprise development prepared by SMED were insufficiently documented to be funded by AID in their current form.

The micro enterprise development component was not sufficiently integrated into the conceptual design of the project.

EMPLOYMENT AND ENTERPRISE RESEARCH COMPONENT

The SMED project failed to carry out the research plan proposed in the project paper, largely due to the bias and priorities of the Ministry of Trade and Industry at that time.

IX RECOMMENDATIONS

Support a re-designed Phase II of the SMED project with the following modifications:

1. The Ministry and the private sector, together with a redesign team, should jointly decide on responsibilities for project management and implementation. This would include a discussion on the delegation of substantive implementation responsibility to the private sector.
2. AID and MTI should retain the existing regions as areas of subproject activity.

The regions originally selected may have had relatively less capacity for success with an industry association approach given their weak infrastructure and greater level of poverty. However, the incipient institutional development underway in these regions should be built upon, as they have potential for valuable private sector linkages..

3. AID and MTI should consider the possibility of expanding the geographic scope of the project to include one or two of the more growth oriented regions, outside of Metro Manila.

There must be a sufficient provincial institutional capacity and commitment to ensure effective collaboration, as well as consideration of the activities already undertaken by BSMI in the other regions.

4. AID and MTI should consider expanding the sectoral focus of the project to include other industrial activity, such as food processing, garments and other non-farm productive activities.
5. A redesign team, in conjunction with MTI, should redefine the outputs of the project to include firm-specific marketing and technical assistance as a project activity, with a capacity to generate demand for extension services, although not directly linked to associations.
6. The scope of the SMED project should be rationalized to conform to the project's basic objectives. It is anticipated that funding levels will be reduced.

PROJECT MANAGEMENT, DESIGN AND IMPLEMENTATION

7. MTI should develop a research plan to ensure that the research conducted will support the planning capacity of the implementing institution and the private sector proponents.
8. MTI should incorporate the SMED project into a line agency with regional staff capacity.

MTI, in conjunction with the redesign team, should assess the effect that the reorganization of the MTI will have on the implementation of the project. The incorporation into the Ministry of a Deputy Minister for Regional Development who is anticipated to be the line agency for the regional MTIs should be evaluated.

8. MTI should establish defined channels of communication so that contact between those managing the SMED project at head office with expertise in small business development and the MTI regional office be as direct and fluid as possible. The aim is to ensure effective outreach and project follow-up in the regions.
9. MTI should designate specific staff to be assigned to the SMED project. The objective is to ensure that the original project goal of increasing the capacity of the private sector is not lost, and to keep SMED Project activities independent of other Ministry project activities.
10. The MTI should incorporate a contractor who will train, assist and support staff involved in SMED activities in the head office in project design, proposal development, and monitoring systems.

A complementary anticipated function would be for this contractor to serve as an "information broker" between AID and the Ministry, to assist with the contractual, procedural, and logistical difficulties associated with project development and implementation.

MTI, in conjunction with AID and the redesign team, should fully develop the scope of work of such a contractor.

11. MTI and the Executive Committee, together with the redesign team, should reassess the validity of and redefine the participants' roles in the Management Implementation Secretariat and the Executive Committee.

Subproject funding decisions should be made principally by MTI staff to ensure rapid processing. The Executive Committee with private sector representatives should serve in an advisory, policy and program planning capacity.

Private sector representatives may be directly responsible for implementation of a specific program of the SMED project.

12. The SMED project as a whole should discard the "rolling design" methodology as a means of project development.
13. The policies and criteria for subproject proposals should be defined by AID and MTI prior to the initiation of Phase II.
14. The redesign team, together with MTI, should assess the criteria for the project monitoring and reporting system which would include more programmatic indicators of accomplishments.
15. MTI, the Office of Management and Budget, and the Commission on Audit should meet to discuss and make recommendations on government regulations concerning commodity procurement, yearly budgetary cycles, and other matters concerning the financial management of the project which will affect implementation in the future. The rules and regulations have to be clarified among all parties.
16. AID and MTI, together with the redesign team, should determine the most appropriate mechanism for disseminating information about their financial procedures and regulations.
17. In view of the operational difficulties of the SMED project, the project funds should be converted from loan to grant.
18. The redesign team, together with MTI, OMB and AID, should assess the management implications of converting the project funds from loan to grant. A new system will need to be developed to allow for implementation.

INSTITUTIONAL DEVELOPMENT COMPONENT

19. MTI, in the SMED project, should concentrate on a limited number of programmatic activities. This would not necessarily mean that all projects and proposals currently underway should be preserved.

The program which merit continuing include:

- Small Business Institutes
- Chamber Development Program
- Association Development
- Firm-Specific Marketing and Technical Assistance.

The Redesign Team together with MTI and the MTI regional office should determine the principal programmatic activities to be undertaken in Phase II.

20. MTI should provide a more integrated support structure to subproject activities underway, via subcontract to private specialized institutions. The concern here is specialized, technical support which is relatively non-bureaucratic and responsive to regional project collaborators' requirements.

Recommended subprojects include:

- a) Technical assistance in training methodologies for Small Business Institutes in each of the regions.
- b) Technical assistance to all project collaborators in institutional development, the implementation of financial systems and programmatic activity with a greater revenue generating capacity.
- c) Technical assistance by industrial sector specialists to support the association development component.

The re-design team should substantively assist MTI to develop these subproject proposals.

PCCI CHAMBER DEVELOPMENT

21. The redesign team, in conjunction with MTI, PCCI and regional chambers, should assess and determine the most appropriate program for provincial chamber development, which will respond to the needs of SMEs and promote increased information flow between chambers.
22. The redesign team, together with MTI, PCCI and regional chambers, should reevaluate Business Information Centers (BICs) as a SMED program activity.

SECTORAL ASSOCIATION DEVELOPMENT

23. The re-design team in conjunction with MTI, national and regional sectoral associations should establish guidelines and make programmatic recommendations determining the most appropriate means of using either national and/or regional sectoral associations as conduits for services.

The plans developed should explicitly demonstrate the linkages between the development of regional sectoral associations and national sectoral associations in subproject activity.

24. MTI should reassess the validity of SMED's project involvement in the Philippine Exporters Foundation (PEF).

DOMESTIC MARKET DEVELOPMENT AND TECHNICAL ASSISTANCE PROGRAMS

25. The redesign team, in conjunction with MTI, should establish guidelines for the integration of the domestic market development and technical assistance programs into the overall framework of the institutional development component. Firm-specific technical and marketing assistance should be continued and should be more directly supportive of association development.

TRAINING RELATED PROGRAM

26. MTI should subcontract technical support in the area of training methodologies, specifically case study, clinic and conference/discussion approaches for Small Business Institutes.
27. The redesign team should help MTI to develop this subproject proposal.
28. With regard to SBIs, MTI should
 - a) Clarify the compensation requirements for the technical staff to ensure their long-term viability;
 - b) Clarify and further define the client base of the SBIs.
 - c) Assess the market absorption capacity of SBIs where more than one SBI is programmed.
 - d) Support and limited research and consultancy by SBIs.

MICRO ENTERPRISE DEVELOPMENT

29. The objectives of the micro enterprise component are different from those of the rest of the SMED project. In view of MTI's limited experience with PVOs and micro enterprise development, and because of the need for the SMED office to focus on implementing the institutional development component, the micro enterprise development component should be separated from the SMED Project.
30. A new micro-enterprise development project should be designed, to be implemented by a national PVO and/or there should be increased support to the co-financing program of AID.

EMPLOYMENT AND ENTERPRISE POLICY RESEARCH

31. SMED should carry out baseline and policy research specifically tied to and supportive of projects already underway as well as concerning anticipated project activity.

SMED GRANT
(in US Dollars)

	Approved Per PIL 21 -----	Proposed Realloco- cation -----
A. EXTENSION AND DEMONSTRATION		
Extension (Technical Services)		
- Product Specialists	128,000	---
- PTE/Technology in Action	49,950	---
- PTE (Productivity/Technology Efficiency)	---	50,000
- Technology in Action	---	50,000
- Gabay Junior Volunteers	44,450	44,450
- Support to Regional Federations	33,850	60,000
- Philippine Volunteer Program (PVF)	55,550	28,000
- General Contract	75,000	600,000
- Micro Enterprise Contractor	27,500	30,000
- Small Business Institutes	49,000	10,000
- NIS-IGP (National Info Secretariat/ Income Generating Projects)	---	30,000
- Master PVO	---	75,000
- Island Economies	---	10,000
- Micro Enterprise Development and Training Center	---	40,000
- Business Development and Technology Center	---	30,000
- Aquaculture Technical Consultancy Service Center	---	100,000
Sub-Total	464,000	1,157,450
Demonstration Activities -----		
- Market Encounter Goes to Manila	50,000	---
- Buyers' Centers	50,000	---
- Support to Association	170,000	100,000
Sub-Total	270,000	100,000
B. Commodities	72,000	64,000
C. Training	50,000	---
D. Studies and Evaluation	36,000	170,550
Sub-Total	892,000	1,150,000
Not Yet Programmed	608,000	---
TOTAL	1,500,000 =====	1,500,000 =====

Source: SMED Administrative Records

APPENDIX NO. 1b

SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT STATUS OF LOANS OUTLAY FUNDS (PER PROJECT BASIS) FOR PERIODS ENDING, DECEMBER 31, 1984 & 1985 AND JUNE 30, 1986

PROJECTS	NET OBLIGATED	RELEASED	APPLIED FOR REIMBURSEMENT	REIMBURSED BY USAID TO TREASURY
Institutional Development Components:				
Chamber Development:				
a. Merunning of Product Specialist (PCCI)	P 600,000	P 600,000	0	
b. BIC - Tuguegarao	100,000	100,000	0	
c. BIC - La Union	81,660	81,660	0	
d. BIC - Naga	50,000	50,000	0	
e. BIC - Dagupan	50,000	0	0	
f. BIC - Laoag	50,000	0	0	
g. BIC - Iligan	50,000	0	0	
h. BIC - Iloilo	50,000	0	0	
i. BIC - Bacolod	50,000	0	0	
j. BIC - Isabela	50,000	0	0	
k. BIC - Baguio	50,000	50,000	0	
l. Cagayan Valley Chamber of Furniture Producers	200,000	100,000	P 41,871	0
m. CVCFF Buyers Center	50,000	50,000	27,442	0
n. ACCI/BCCI	180,000	180,000	80,000	0
o. PCCI Workshop	36,217	36,217	36,217	0
p. RMIS/PCCI	200,000	0	0	0
q. Baguio Benguet CCI	5,250	5,250	5,250	0
r. CPIP Training	251,292	251,292	29,942	0
s. Western Visayas Federation of Furniture Manufacturer	100,000	0	0	0
t. PCHI	420,000	420,000	0	0
u. Trade and Industry Information Exchange	767,050	0	0	0
Domestic Market Development Program:				
a. MEGMA (NACIDA)	822,810	525,935	473,531	P 186,680
b. Regional Buyers Center (NACIDA)	260,000	260,000	0	0
c. Baguio Silver and Brass	75,000	75,000	46,522	0
d. Regional Producers and Buyers Center (Federation of Gift and Houseware)	9,277	9,277	9,277	0
e. Basketry Products (Federation of Gift and Houseware)	125,000	125,000	0	0
Small Business Institute:				
a. Bicol SBI (Aquinas University)	460,000	460,000	244,574	100,000
b. SPDAC	70,000	70,000	0	0
c. Bicol SBI (University of Northwestern Philippines)	125,000	125,000	36,497	36,497
d. Ilocandia SBI (St. Louis) San Fernando	280,000	280,000	271,251	0
e. Cagayan Valley SBI	462,400	462,400	0	0
f. Western Visayas SBI - NEDF	100,000	100,000	0	0
g. Western Visayas SBI - CPU	100,000	100,000	89,850	0
h. Central Mindanao SBI - MDU	450,000	450,000	308,402	0
i. Ilocandia SBI (Divine Word College)	150,000	0	0	0
j. Ilocandia SBI (Luzon College - Dagupan)	50,000	0	0	0
k. FISSI - St. Louis College - Baguio	80,000	80,000	0	0
l. Iligan SBI - Iligan Inst. of Tech. CERDEV	50,000	0	0	0

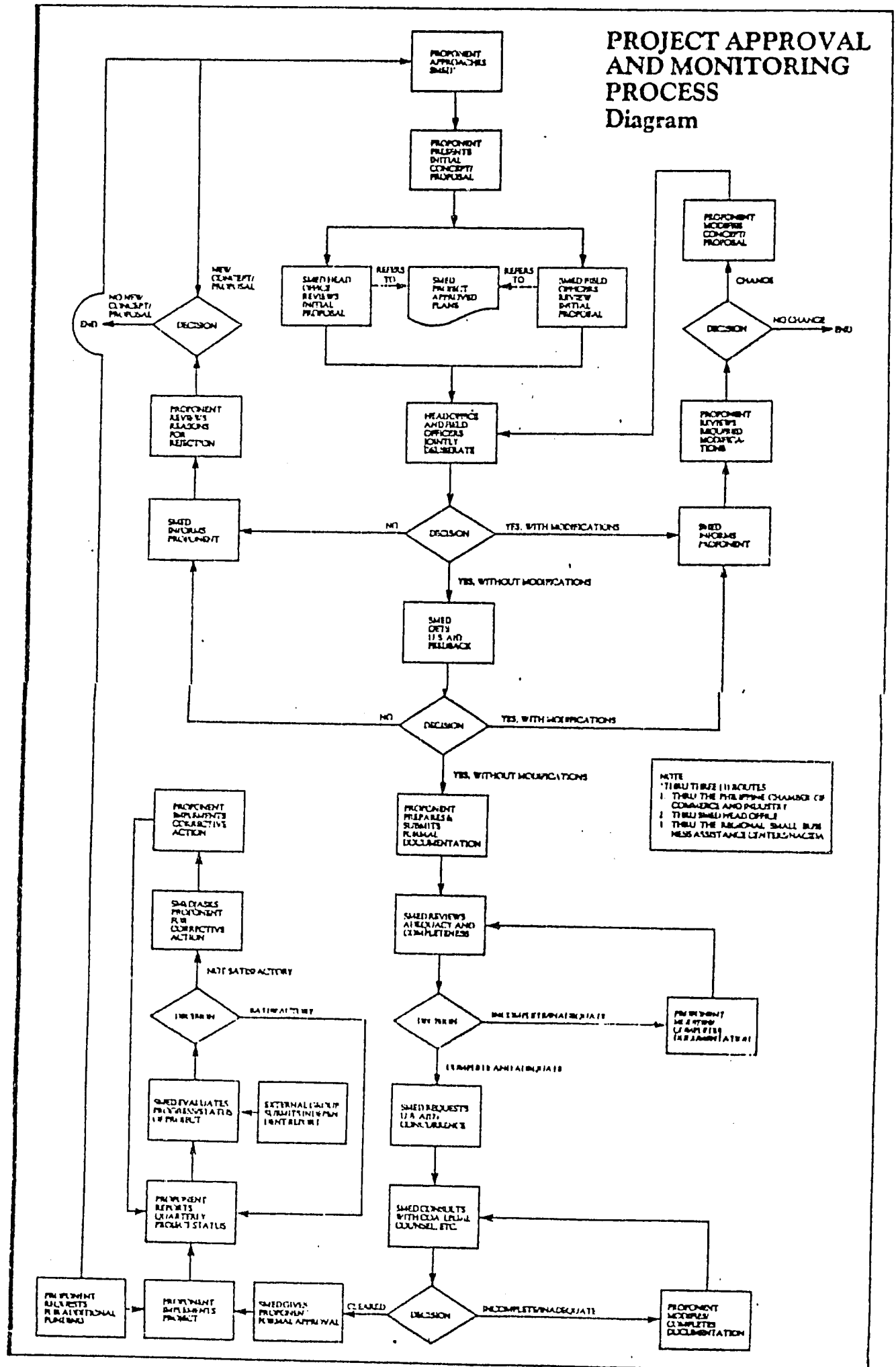
<u>PROJECTS</u>	<u>NET OBLIGATED</u>	<u>RELEASED</u>	<u>APPLIED FOR REIMBURSEMENT</u>	<u>REIMBURSEMENT BY USIAD TO TREASURY</u>
D. Local Study Mission for Furniture	P 20,000	P 20,000	0	0
E. Volunteer Program :				
a. Philippine Exporters Foundation	1,000,000	1,000,000	0	0
b. Junior Volunteer Service	57,200	57,200	P 21,250	0
c. IESC	66,137	66,137	9,000	P 9,000
d. Philippine Volunteer Foundation	50,000	50,000	50,000	0
F. Accent on Design	889,600	169,600	0	0
G. Regional Training Committee	100,000	100,000	0	0
TOTAL INSTITUTIONAL DEVELOPMENT	P 9,423,893	P 7,109,968	P 1,780,906	P 332,177
Micro Enterprise Development				
A. Course on Promoting Micro Enterprise in the Rural Areas	P 58,000	P 58,000	P 47,614	P 47,614
B. MEDC Lending Program	0	0	0	0
C. Association of PVU's	420,000	0	0	0
TOTAL MICRO ENTERPRISE DEVELOPMENT	P 478,000	P 58,000	P 47,614	P 47,614
Employment and Enterprise Policy Research;				
A. AIM Scholarship Program	P 881,038	P 881,038	P 881,038	P 881,038
B. SCV Contractor	300,000	300,000	300,000	300,000
C. SERDEF/AIM	557,886	0	0	0
D. Market Research Seminar	120,000	120,000	120,000	120,000
E. Product Specialist Program	1,547,285	1,547,285	1,547,285	1,547,285
TOTAL EMPLOYMENT AND ENTERPRISE	P 3,405,989	P 2,848,323	P 2,848,323	P 2,848,323
TOTAL LOANS OUTLAY FUNDS	P 11,017,882	P 10,016,291	P 4,676,843	P 3,228,114

Source: SMED Administrative Records, 1986

APPENDIX NO. 1c

LIST OF A.I.D. SMED PROJECT ACTIVITY, INCLUDING AMOUNT EARMARKED, COMMITTED AND DISBURSED

PIL	DATE	NAME OF PROJECT/ACTIVITY	AMOUNT	AMOUNT	DISBURSE-
NO.	APPROVED		EARMARKED	COMMITTED	MENT
8	06/04/84	Training course to promote micro enterprises.	4,855	4,855	2,000
10	08/07/84	Study of existing associations.	16,668	16,668	16,000
11	09/09/84	Establishment of the Bicol Small Business Institute Aquinas University of Legaspi.	23,334	5,556	5,000
14	09/12/84	Request for Technical Proposals (MEBC).	33,333	4,167	
16	09/25/84	1984-1985 AIM Scholarship Program.	51,123	51,123	46,000
17	09/27/84	Market Encounter goes to Manila. (Buyers' Market)	27,677	27,677	10,000
19	10/24/84	Procurement of technical services of furniture experts from the International Executive Service Corps (IESC).	3,990	2,990	
20	10/25/85	Support to the Cagayan Valley Chamber of Furniture Procedures and Buyers Center in Tuguegarao, Cagayan.	12,210	12,210	
23	11/02/84	Commodity Procurement.	4,862	4,862	4,000
24	11/15/84	Basketry Project for the Cagayan Valley.	10,070	10,070	
26	12/07/84	Small Business Institute in Cagayan.	18,350		
27	12/12/84	Vehicle procurement.	50,000	24,000	23,000
28	12/13/84	Procurement of Product Specialists.	76,425	76,425	77,000
29	12/27/84	One month exhibit of selected gifts and houseware products of member-associations of the newly organized Regional Federation of Crafts and Housewares procedures (RFSGHP) at the Regional Producers and Buyers Center in Region II.	555	555	
30	01/08/85	Market Research Seminars for the regional technical staff of the Ministry of Trade and Industry.	6,666	6,666	7,000
31	01/14/85	Recording and "Re-running" Product Specialists Activities.	30,770		
33	01/21/85	Trade and Industry Information Exchange Centers.	9,678		
34	01/30/85	Support for Bicol Chamber of Commerce and Industry Secretariat	6,306		
38	02/22/85	Establishment of four Regional Buyers Centers in Baguio, Naga, Cebu, and Davao.	24,723		
40	03/05/85	Establishment of Iloilo and Bacolod branches of the Western Visayas Small Business Institute.	36,001	36,001	
41	03/06/85	Accent on Design Activity	20,534	20,534	
42	03/07/85	Junior Volunteer Service Activity. (Baguio)	2,925	2,925	
43	03/07/85	(Renovation of the) Bicol Small Business Institute University of Northwestern Philippines (office facilities).	7,604	7,604	2,000
44	03/07/85	Local Study Mission for furniture	1,112	1,112	
45	03/07/85	Furniture finishing training.	834		
46	03/08/85	Market Encounter Goes to Manila (MEBNA 1985) Buyers fair.	16,841	16,841	
50	03/25/85	Partially finance the costs of the subject seminar conducted at the Cotabato City Small Business Institute.	1,045	1,045	
55	05/09/85	Central Mindanao Small Business Institute.	22,778	22,778	
56	05/10/85	Procurement of four volunteer advisors from the International Executive Service Corps. (IESC).	41,000	5,309	



57	05/20/84	Ilocandia Small Business Institute - St. Louis Collage.	15,556	15,556	
59	06/06/85	Seminar-Dagupan-Banquet Chamber of Commerce and Industry	292	292	
60	06/10/85	Ali-Mall Exhibit of the Dagupan Silver and Brass Producers' Association. (BBBPA)	3,889	3,889	
66	07/12/85	Philippine Volunteers foundation.	30,556	30,556	11,000
67	08/05/85	Philippine Chamber of Commerce and Industry Workshop	2,012	2,012	
68	08/28/85	Printing brochures of PCCI-SMED Projects.	2,500		
70	09/09/85	Regional Training Committee (Multi-Purpose Centers in Region II.	16,667		
75	10/17/85	St. Louis University-Extension Institute for Small-Scale Industries.	4,444		
77	10/18/85	Businessmen's Information Centers.	22,222		
80	10/25/84	Personal Management Implementation Secretariat-Cotabato.	11,111		
81	10/28/85	Product Specialists Program.	29,200		
85	11/13/85	Local Study Mission for Gifts and Houseware Association of Region II.	378	378	
86	11/14/85	Sorsogon Project Development Assistance Center/Bicol Small Business Institute-Sorsogon.	3,889		
89	12/03/85	Chamber Development Program Philippine Chamber of Handicraft Industries (PCHI).	23,333		
90	12/12/85	Ilocandia Small Business Institute-St. Louis Collage Extension Institute at Luzon Colleges, Dagupan.	2,778		
92	12/17/85	Commodity Procurement: Microcomputers.	4,158		
93	12/19/85	Small Business Institute National Conference.	1,417	1,417	
95	01/29/86	Trade and Industry Information Center.	20,392	18,000	
97	02/04/86	Operations Review Market Encounter Goes to Manila	1,389		
98	02/05/86	Western Visayas federation of furniture Manufacturers	5,556	5,000	
99	02/14/86	Cagayan Valley Federation of Gifts and Houseware Procedures.	2,000		
100	02/14/86	Bicol Regional Training Committee.	2,632		
103	03/03/86	Nueva Vizcaya Small Institute Program.	5,000		
104	03/04/86	Central Mindanao Small Business Institute - MOU Small Business Institute Affiliation Program (CESDEV-Iligan and CESDEV-Marawi).	2,000		
	11/25/85	General Contractor-Institutional development.	244,000		
	11/25/85	SMED Evaluation Contract.	35,000	35,000	
TOTAL-----			1,054,640	474,073	203,000

Source: AID Project Records, prepared with the kind assistance of Mr. Mitchell Katz, USAID Research Intern

APPENDIX NO. 2

SMED STAFF MOVEMENTS
1984 - 1986

Staff	1984	1985	1986	To Date
Beginning Balance	0	12	24	0
Hired	15	25	6	46
Resigned	3	13	12	28
End Balance	12	24	18	18
Permanent Staff (Noncontract)	3	3	3	3

Source: SMED Administrative Records
Supplied with kind assistance of Mel Fernandez.

30 AUG 1984

Mr. Antonio S. Yap
Executive Director
Small and Medium Enterprise
Development (SMEED) Project
Ministry of Trade and Industry
361 Senator Gil J. Puyat Avenue
Makati, Metro Manila

Subject: Small and Medium Enterprise
Development (SMEED) Project
Project No. 492-0359
Project Implementation Letter No. 13

Dear Mr. Yap:

The purpose of this letter is to provide guidelines on information AID will require and criteria AID will use to evaluate proposals submitted under the institutional development component of SMEED. Ordinarily, such proposals would be approved by AID in conjunction with the annual implementation plan prepared under Section 6.2 of the Project Agreement. However, it is recognized that refinements, additions and changes to the plan may be appropriate from time to time during the year and these may be incorporated into the project plan at any time subject to mutual agreement between the Ministry of Trade and Industry (MTI) and AID in writing. AID suggests these guidelines be given to private sector groups interested in SMEED.

Need for Diagnostic Analysis

AID's major concerns regarding proposals for institutional development are that they be consistent with the objectives of SMEED and that they be technically, financially, economically, socially and administratively sound. Accordingly, proposals should be supported by sufficient data and analyses to satisfy these concerns, which are more thoroughly discussed below. In accordance with the Project Paper and Annex I of the Project Agreement, it has been our joint expectation that the general contractor would do the necessary diagnostic analyses to support these proposals. However, during the interim that the services of a general contractor are being procured it will be necessary for the GGP/private sector beneficiaries to justify the proposals using alternate sources of expertise. AID encourages the rapid procurement of the general contractor services in order to facilitate the development of sound proposals.

The major thrust of SMED's institutional development component is to support the development of trade and industry associations in areas outside of Manila as a means of facilitating the growth of small/medium enterprises, which would, in turn, contribute to an increase in rural employment. To enable the associations to serve as direct suppliers of and principal conduits for the provision of extension services to small and medium enterprises, the associations' capabilities to provide both industry and firm-specific services are to be strengthened. In this process, demonstration activities/extension services represents the major input to the institutional development component in financial terms. Adequate association-level as well as firm-specific needs analyses are crucial to identifying appropriate demonstration activities and constitute examples of the key role of thorough analytical groundwork in the formulation of sound activity proposals. In short, analysis provides the justification for the undertaking of any particular activity, and proposals should contain the findings of pertinent analyses.

Evaluation

Since activities undertaken over the next eighteen months will be especially geared toward the testing of new approaches, an additional concern is that an adequate monitoring and evaluation component be built into each activity, and that this be reflected in the proposals.

Summary Criteria for Evaluation of Proposals

The foregoing concerns are reflected in the following criteria which AID will use to evaluate proposals:

1. Analytically demonstrated conformance to project objectives, i.e.,
 - a. institutionalization of services within the private sector; and
 - b. assistance to SMEs in rural areas toward the objective of generating employment.

(Indicators of the extent to which the proposed activity would contribute toward meeting project objectives include focus on the intended project beneficiaries and extent of private sector involvement.)

2. Clarity of description of the proposed activity, including a well defined statement of the need for the activity.
3. Reasonableness of cost and acceptable or economic rate of return.
4. Project sustainability, including technical, social, financial and managerial feasibility.
5. Well defined, sound evaluation and monitoring methodology.

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Suggested Proposal Elements

The following represent, in outline form, suggested elements of an activity proposal, which would enable AID to evaluate proposals properly in accordance with the above criteria:

I. Description

- A. Detailed description of the objectives, goals, purposes of the activity, including a well defined statement of the problem to be resolved or tackled.
- B. Specific budget breakdown and detail of inputs over time.
- C. Expected project outputs, including projected timing and quantities.
- D. Implementation Plan: precisely who does what, when? Following details should be included:
 - 1. Description of private sector involvement in planning, implementation and financial commitment.
 - 2. Description of GOP involvement.
- E. Expected impact. (This should include a description of the beneficiaries--who, how many--since targetting of intended project beneficiaries is of prime importance.)
 - 1. Impact on association development.
 - 2. Impact on employment- to the extent that this can be shown.
 - 3. Impact on GOP agencies.
 - 4. Impact on entrepreneur.

II. Analysis should focus on sustainability, cost effectiveness and need, and should provide justification on following grounds:

- A. Conformance to project objectives
- B. Economic soundness
- C. Social soundness
- D. Administrative or managerial soundness (include whether the activity is feasible given actual staffing levels, etc.)
- E. Financial soundness
- F. Technical soundness

III. Evaluation and Monitoring

- A. Description of methodology which will be employed to monitor and evaluate the activity. This should include the following:
1. How will baseline data be obtained?
 2. Schedule of assessments.
 3. Description of means by which these assessments will be carried out.
 4. What are the indicators of progress which will be examined?
 5. Describe monitoring and control system, including documentation arrangement.

As you suggested in the August SMED review meeting, a useful supplement to the above information would be a completed logical framework for each proposal. This would help demonstrate the linkages to project objectives and evaluation indicators as well as show some analysis needs.

We hope that the above would serve as a useful aide in the formulation of activity proposals. Should you have additional questions, please do not hesitate to call me or Mike Hauben.

Sincerely,

ORIGINAL SIGNED

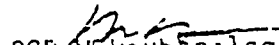
John A. Tennant
Chief, Office of
Capital Development

Clearances:

OCD:KEBrown (draft)
OCD:ARosete (draft)
PO:RRhoga (draft)
OU/PE:PDavis (draft)

cc: Romeo A. Reyes
External Assistance Staff
NEDA

cc: OCD, OD, PO, AID/W-6 - sent 8/30/84
OD/PE, C&R


OCD:MEHauben:lsc
8/22/84

APPENDIX NO. 5

FLOW OF PROJECT FUNDS
NUMBER OF SUBPROJECTS, CLASSIFIED BY NUMBER OF MONTHS
BETWEEN MEMORANDUM OF AGREEMENT AND RELEASE OF FUNDS

Action Taken -----	1984 funds -----	1985 funds -----	Total -----
Not Released	3	7	10
Released in one month	6	13	19
Released in two to four months	7	3	10
Released in five to ten months	5	7	12
Released in over ten months	2	0	2
T O T A L	23	40	43

Source: SMED Administrative Office
Supplied with kind assistance of Mel Fernandez.

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APPENDIX NO. 6

REGIONAL DISTRIBUTION OF EXISTING LOCAL CHAMBERS OF
COMMERCE AND INDUSTRY, PCCI Directory of PCCI, 1986

1. Identified Existing Local CCI Per Region.

REGION	:	1986	:	% OF TOTAL
NCR	:	10	:	12.35
I	:	6	:	7.40
II	:	9	:	11.12
III	:	6	:	7.40
IV	:	15	:	18.52
V	:	9	:	11.12
VI	:	3	:	3.70
VII	:	3	:	3.70
VIII	:	2	:	2.47
IX	:	3	:	3.70
X	:	4	:	4.94
XI	:	4	:	4.94
XII	:	7	:	8.64
TOTAL	:	81	:	100%

Source: PCCI, survey conducted by Metro Manila Office.

2. SMED Regions Contribution

REGION	:	1986	:	% OF TOTAL
I	:	6	:	17.64
II	:	9	:	26.47
V	:	9	:	26.47
VI	:	3	:	8.82
XII	:	7	:	20.58
TOTAL	:	34	:	100%

3. SMED Regions Vs. Rest

REGION	:	Membership	:	%
	:	Affiliate/Non	:	
SMED	:	34	:	42%
REST	:	47	:	58%
TOTAL	:	81	:	100%

4. SMED Regions Vs. Rest

REGION	1982	1984	1986
NCR	6	8	10
I	2	2	5
II	0	0	3
III	1	1	2
IV	2	3	4
V	1	1	8
VI	1	1	2
VII	1	3	2
VIII	2	2	2
IX	1	1	1
X	0	0	2
XI	0	0	1
XII	1	1	6
TOTAL	18	23	48

5. SMED Region PCCI Affiliates

REGION	1982	1984	1986
I	2	2	5
II	0	0	3
V	1	1	8
VI	1	1	2
XII	1	1	6
TOTAL	5	5	24

6. SMED Region Vs. All Regions. PCCI Affiliates

	1982	%	1984	%	1986	%
SMED Regions:	5	28	5	22	24	50
Rest	13	72	18	78	24	50
All Regions :	18	100	23	100	48	100

7. 1986 PCCI Affiliate Vs. Identified Local CCIs. All Regions.

REGION: IDENTIFIED CCIs : 1986 PCCI AFFILIATES : NON-MEMBERS			
NCR :	10	:	10
I :	6	:	-
II :	9	:	1
III :	6	:	6
IV :	15	:	4
V :	9	:	11
VI :	3	:	1
VII :	3	:	1
VIII :	2	:	1
IX :	3	:	-
X :	4	:	2
XI :	4	:	2
XII :	7	:	3
TOTAL :	81	:	48
		:	33

8. 1986 PCCI Affiliate Vs. Identified Local CCIs in SMED Region.

REGION: IDENTIFIED CCIs : 1986 PCCI AFFILIATES : NON-MEMBERS			
I :	6	:	5
II :	9	:	1
V :	9	:	6
VI :	3	:	1
XII :	7	:	1
TOTAL :	34	:	24
		:	10

9. 1986 Total PCCI Affiliates Vs. CCIs

REGION :	PCCI AFFILIATES :	CCIs :	NON-MEMBERS :	% :
SMED :	24	34	10	30
Rest :	24	47	23	70
TOTAL :	48	81	33	100

APPENDIX NO. 7

CFIF MEMBERSHIP LIST

Chapter Membership

	1977	:	1981	:	1986
		:		:	Baguio
		:	Dagupan	:	Dagupan
		:	Isabela	:	Isabela
Angeles		:	Angeles	:	Angeles
		:	Legaspi	:	Legaspi
		:		:	Iloilo
		:		:	Negros
Cebu		:	Cebu	:	Cebu
		:		:	Tacloban
		:	Zamboanga	:	Zamboanga
		:	Cagayan de Oro	:	Cagayan de Oro
		:		:	Gen. Santos
Davao		:	Davao	:	Davao
TOTAL	3	:	8	:	13

Section C -- Statement of Work

C.1. Objective

The basic objective of the evaluation is to collect information to be used by the Ministry of Trade and Industry (MTI) and USAID to design Phase II of SMED and to design the new Private Enterprise Promotion (PEP) project.

C.2. Background

a. Overview of the Project

The Small and Medium Enterprise Development (SMED) Project is a \$20 million effort: \$13.5 million AID Loan, \$1.5 million AID Grant, and \$5 million Government of the Philippines contribution. Project implementation actually began June 1984, upon the meeting of Conditions Precedent.

The project is phased. Phase I encompasses the period 1984-86; Phase II, 1986, to the 31 December 1989 PACD. During Phase I, the project has been primarily operating in 5 regions: I (Northwestern Luzon, i.e., Ilocos and environs), II (Cagayan Valley, Northeastern Luzon), V (Bicol, Southeastern Luzon), VI (Western Visayas), and XII (Central Mindanao). Two industries have been targetted for assistance, wood furniture and gifts and housewares (essentially, handicrafts). The project is using the rolling design concept, in which the detailed design of activities to be undertaken is developed as part of project implementation. Hence, Phase II activities have not yet been fully defined.

b. Project Components

SMED has three components: Institutional Development; Micro-Enterprise Development; and Employment and Enterprise Policy Research Component. The last two components each account for 8% of total project cost; the Institutional Development component accounts for 84%.

It should be noted that the economic difficulties the Philippines are experiencing had not yet come into play

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during project design. Design assumed a ready availability of financing for business activity. This became problematic, however, as interest rates rose to very high levels. Also, Government budgetary constraints have inhibited drawdown of loan funds, with the result that demonstration activities developed have been small, low-cost activities.

1. Institutional Development Component

The project seeks to increase productive non-farm employment opportunities by stimulating the establishment and growth of small and medium enterprises outside Metro Manila. The strategy employed involves strengthening the capability of national (e.g., Philippine Chamber of Commerce and Industry - PCCI) regional and sectoral private sector trade and industry associations to provide directly, or serve as conduits for services to their member firms. Industries which heavily use indigenous raw materials have been targetted. The associations are represented together with the Ministry of Trade and Industry in a Management Implementation Secretariat (MIS).

The approach has been to address production as well as marketing constraints, through training and technical assistance on the production side, and by supporting design improvement, exhibits and trade fairs in regard to marketing. At the same time, strengthening of the associations themselves has been fostered.

In fifteen months of implementation, considerable organizational work has been accomplished. A number of inactive industry associations have resumed functioning; small, weak associations have been consolidated to form regional associations; and selected national level associations have pursued chapter formation in rural areas. Practical activities undertaken by the associations with project support have included training, technical assistance in product development, and establishment of buyers' centers and other marketing assistance.

Following are examples of such demonstration activities: Small business institutes, collaborative endeavors of regional chambers of commerce and industry and local universities, are functioning in each of the targetted regions, offering management training. Regional Buyers' Centers have been established, as have federations of associations. The

Philippine Chamber of Commerce and Industry (PCCI), the umbrella trade and industry association, is being assisted in the establishment of regional data banks of trade opportunities information for entrepreneurs (Business Information Centers). The Chamber of Furniture Industries of the Philippines is undertaking a needs analysis of the furniture sector. The Philippine Chamber of Handicraft Industries is currently developing a proposal for a study of availability of raw materials and for assistance in chapter development.

By the end of the project it is expected that: (1) Selected associations will be strengthened so that they will have the capacity to directly provide and act as conduits for the provision of more and improved extension and demonstration activities to SMEs, complimentary to Government efforts; (2) MTI will have improved its capacity to assist private sector SMEs at the industry level; and (3) PCCI and industry and service associations will be able to represent SMEs in national and industry level policy dialogues with the public sector.

2. Micro-Enterprise Development Component

This component is intended to develop increased capacity in private voluntary organizations to assist micro-enterprises located outside Metro Manila through credit programs, marketing assistance and management training. A contractor has been selected to design a lending program for micro-enterprises.

By the end of the project it is expected that: (1) PVOs capable of assisting micro-enterprises with credit, marketing and management training programs will be active outside Metro Manila; (2) Training programs will be developed to upgrade basic management skills for micro-enterprises; (3) Sustainable credit programs will be established for micro-enterprises; and (4) Means of providing relevant marketing assistance for micro-enterprises will be developed.

3. Employment and Enterprise Policy Research Component

The objective of this component is to develop a capacity to obtain better information in SMEs and to facilitate effective policy dialogue between the public and private sector about issues which affect SME growth and productivity. A study is underway

which may yield recommendations to broaden the geographic and industrial sector focus of the project. The Asian Institute of Management (AIM) has been contracted to provide training to GOP officials.

By the end of the project it is expected that: (1) The GOP and private sector will have more effective systems to gather accurate and relevant information on SMEs and also the capacity to do better policy analysis on the SME sector; (2) There will be an ongoing effective policy dialogue between the private and public sectors regarding government policies and programs affecting SMEs; and (3) The public and private sectors will have a better understanding of the factors that affect growth and productivity of SMEs.

C.3. Technical Directions

Performance of the work hereinunder shall be subject to the technical directions of the Cognizant A.I.D. Technical Officer (CTO) indicated on the cover page. As used herein, "Technical Directions" are directions to the Contractor which fill in details, suggest possible lines of inquiry, or, otherwise complete the statement of work. "Technical Directions" must be within the terms of this contract and shall not change or modify the terms in any way.

C.4. Statement of Work

The evaluation team shall address the critical evaluation questions indicated below, draw conclusions from the findings, and make recommendations. The evaluation team shall evaluate the three project components, although the major portion of the team's time will be allocated to the largest, institutional development component. Results shall be synthesized so that the report also presents general conclusions about overall project progress.

The evaluation shall examine whether project design changes are necessary and offer guidance for achieving project objectives. The evaluation team shall examine the original assumptions underlying the project and comment upon their validity. A section will be devoted to the lessons learned during project implementation. In addition, the evaluation shall examine the delivery of project inputs, the realization of project outputs and the achievement of objectives.

3. Based on implementation progress to date, what is the expected impact of SMED upon completion of project assistance? How will women benefit?
 - a. What have project associations accomplished to date? Have memberships increased? Is service provision to members improved? Are demonstration projects successful?
 - b. What project activities are likely to have the biggest impact on policy? What can be done to accelerate and improve this impact? Have research contract terms of reference been clearly outlined, contracts adequately funded and supervised? Have methodologies to arrive at a research agenda been adequate? Have research reports been satisfactory? How were findings used?
4. What has been learned from SMED that can be applied successfully to other GOP and AID interventions designed to stimulate private sector development?
 - a. What approaches appear to show promise? What approaches have been tried that clearly do not work?
 - b. What has been learned about SME reactions to GOP initiatives?

b. Recommendations

The evaluation team shall make recommendations concerning:

1. Advisability of continuing Phase I of the project, initiating Phase II, and starting the new PEP Project.
2. Ways to improve the present approach and systems.
3. Possible approaches to be undertaken in Phase II including opportunities for sectoral and geographic expansion.
4. Possible approaches to be undertaken in a follow-on project.
5. Appropriate methodology for quantitative measurement of project impacts in the future.

6. Future AID efforts to stimulate private sector development, to implement "rolling design" projects, and to evaluate project assistance.

Methodology

a. Timing

1. The AID/W member of the team shall spend 2 to 3 days in AID/W reviewing project documentation and discussing evaluation concerns and methodology with relevant offices in AID/W and ANE: PRE, ANE/DP, ANE/PD, desk, etc... The main contact in AID/W will be ANE/PD.
2. The team is expected to spend about 5 weeks in the Philippines, including an initial week and a final ten days in Manila. About 3 weeks are expected to be spent in the regions.

b. Basic Information Collection Techniques

1. Review of Documents

The team shall review all relevant project and background documents. These documents will be provided jointly by AID/W, USAID and MTI.

2. Interviews

The team shall interview MTI, including the MTI/Bureau of Small and Medium Industry's Small Business Assistance Centers (SBACs) in the SMED regions, AID/W, USAID, trade and industry Associations, PVOs, researchers, SMEs. The evaluation team shall interview associations in each region as well as national associations that have been assisted by the SMED project. Non-members as well as members should be interviewed to determine the effectiveness of these associations. Some proxy measurements of growth and enhanced capacity of associations which the team shall use as indicators are included in Annex A.

The evaluation team shall conduct a quick survey of assisted enterprises in each region to get a sense of the effect of the project on assisted enterprises and their communities. Information on the effect of associations on SMEs should be collected through

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interviews with association staff members and SMEs. Non-assisted enterprises, to the extent that they are similar to those that were assisted, should also be interviewed and would serve as a control group so that the effect of non-project factors may be known.

The focus of interviews with assisted SMEs should be on the nature of assistance provided through the SMED project, additional resources that might be secured from the project (loans, equity investment) and finally an assessment of the effect of this assistance. The resulting findings are expected to constitute an assessment of the effect of the assistance on associations and their membership.

3. Field Observations

The team shall make field observations of Associations, SMEs, and PVOs assisting micro-enterprises.

C.5. Team Composition

The evaluation team shall be composed of:

1. A U.S. Consultant team leader experienced in managing and conducting evaluations of micro, small and medium enterprise development projects with an economic/financial background, who will be responsible for the evaluation report, and who will be provided under a contract with a consulting firm;
2. A local individual consultant with experience in evaluating small and medium enterprise development projects and intimate knowledge of small and medium enterprise issues in the Philippines, who will be hired by the contracted firm;
3. A locally hired secretary;
4. A research assistant, also to be hired by the contracted firm; and
5. An AID officer from AID/Washington, who will participate as a team member with the contract personnel.

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F.3. Reporting Requirements

1. Draft Report

One week prior to departing from the Philippines, the contractor will present a draft report of findings for review by Mission/MTI and the Management Implementation Secretariat (MIS), and discuss the report with these groups. These groups will provide comments on the report within four calendar days. During the last two days, the contractor will incorporate feedback derived from the review into the report.

2. Final Report

Prior to leaving the country, the team will complete a final report incorporating feedback from the reviewers, and submit two copies to MTI and two copies to AID. The final report will follow the format in Annex D, Reporting Requirements, and will include an Executive Summary following the outline provided in Annex E.

APPENDIX NO. 9

METHODOLOGY AND INTERVIEW GUIDE

The methodology for the political and economic context involved review of relevant documents and the compilation of time series data for the years 1982 through 1985, the period of project design and implementation to date.

In conjunction with extensive interviewing, the evaluation team reviewed MTI, USAID, Industry Association and other relevant project-related documents. Structured interviews were conducted with AID/Washington staff, USAID/Philippines staff, MTI's Manila-based and regional staff, industry and trade associations, private voluntary organizations, appropriate informants knowledgeable of the project, as well as the managers of SMEs. (See List of Persons Interviewed.)

An interview guide was developed to serve as the basis for interviews with provincial and national chambers, associations and private voluntary organizations. This guide was the basis for gathering information on a number of indicators, such as growth in membership over time, number of demonstration projects; nature, quantity, appropriateness and cost of services to SMEs; percentage of member/non-members participating; changes in skill level of staff; financial contribution of association to SMED activity. (See Appendix No. 9.)

Chambers, associations and FVOs in each region, including both members and non-members, were interviewed. Given time and human resource constraints, data was processed only with regard to the industry chambers located in the relevant regions.

The draft document was reviewed by the Ministry, by the Executive Committee of SMED and by USAID/Manila.

ASSOCIATION/PVO GUIDE

Date _____

Name of Organization _____ Phone _____

Address _____ Person Interviewed _____

Type of Organization: Local Chamber ___ Regional Chamber/Organization ___

Local Association ___ National Association/Chamber ___ Other ___

Years in Operation ___ Annual Budget (1983) _____ (1986) _____

Sources of Financing _____

Number of Employees (1983) _____ (1986) _____

Change in Skill Level of Employees (1983 - 1986) _____

Number of Members (origin) _____ (1983) _____ (1986) _____

Estimate Number of Non-Members _____ Member Annual Dues _____

Do you want to expand membership to non members? _____

What are the principal constraints/perceived needs of SMEs in the region?

Micros _____

Services Provided (Demonstration Projects/Group Activity (e.g. common service facility))	Years Offered	Number (Last Year)	Percent Members/ Non-Members	Type of Business
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Do these services have a spread effect? How? _____

How are cost of services (identify by number) covered? (SMED) _____

Member Contributions _____ Others _____

Plans for cost recovery in future _____

To what degree have services provided to date been able to meet needs of SMEs? Greatly __ Moderately __ Poorly __

SMED financial services? Greatly __ Moderately __ Poorly __

Why? _____

To what extent are SMEs in the same industry able to collaborate and use association to solve their problems? _____

Are SMED project inputs contributing to achievement of associations objectives? _____

Would other inputs contribute more? _____

What? _____

What's the major problem in the provision of services to SMEs _____

How would you characterize your relationship with

- governmental providers of services to SMEs (e.g. SBACs, BSHI, SMED) _____
- national chamber of associations (e.g. PCCI, etc.) _____
- national FVO associations _____
- AID/Donor Agencies _____

Are micro enterprises able to borrow funds from FVOs at market interest rates and repay these loans? _____

What aspect of these institutions should be strengthened to improve the provision of services? _____

What is the best means to strengthen PVO's ability to provide services (credit, technical assistance, marketing to micro enterprises? _____

What businesses/sectors of production have the greatest potential for growth in the region? _____

Why? _____

Impact of recent economic crisis on SME's in the region _____

Comments of Interviewee _____

Name of Interviewee

MTI COMMENTS ON THE SMED EVALUATION REPORT
July 28, 1986

SMED basically agrees with the findings and conclusions of the report. However, we would like to offer clarifications on a number of implementation issues as follows:

- a) It should be noted that the Ministry as well as the SMED organizational framework are undergoing restructuring. Hence, some of the recommendations on organizational issues may no longer be relevant.
- b) "lack of an integrated program": SMED believes that the large number of projects initiated is not indicative of a lack of an integrated program nor a lack of evaluation capability. In the second year of implementation (early 1985) SMED integrated all the "small" projects into a few distinct, basic programs. These programs were based on needs of the SME sector, although no formal study was done to support this integration.
- c) Why small amounts: Most projects involved relatively very small amounts of money. The reasons for this are the top management decision not to allocate large amounts to "private sector" projects, and the shortage of funds allocated by the Ministry of Budget.
- d) Why a separate office: The decision to establish a separate office is part of the SMED project design, as spelled out in the project paper. The SMED project office in fact functioned as the Management Implementation Secretariat.
- e) MEDC: From the outset of SMED implementation, MTI had doubts as to the feasibility of a micro lending program, given the small amount of funds allocated to it. Hence, the decision was taken to go into institutional development for PVOs. This, however, was not fully conceptualized because of personnel-related problems.
- f) Why only five regions: We would like to put on record that we requested AID to expand SMED coverage to include other growth areas such as Regions VII, IV and III.

- g) General Contractor: The decision not to hire a general contractor as conceived in the project paper was a top management decision. A revised scope of work for contractors was submitted in the latter part of 1985, albeit with a more technical thrust and at a reduced level of effort.
- h) Slow disbursement of funds: As could be seen from the number of project proposals submitted to AID and approved by the SMED-EC, the major bottleneck was not a lack of subproject ideas, but a result of government disbursement procedures which inhibited rapid release of funds.
- i) A balance was attempted in the implementation given the original "rolling" design of the project, the lack of the required government funds, the amount of money available, and the prevailing ministry priorities at the time.

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